



Directorate of  
Intelligence

**MASTER FILE COPY**

**DO NOT GIVE OUT  
OR MARK ON**

~~Secret~~

25X1

28

## Near East and South Asia Review

25X1

*Special Issue: The Persian Gulf in 1986*

22 November 1985

~~Secret~~

NESA NESAR 85-025  
22 November 1985

Copy 411

**Page Denied**

Secret

25X1

**Near East and  
South Asia Review**

25X1

22 November 1985

**Special Issue: The Persian Gulf in 1986**

	<i>Page</i>	
<b>Articles</b>		
<b>The Persian Gulf in 1986: Another Turbulent Year in the Offing</b>	1	25X1 25X1
<p>The Persian Gulf region during 1986 will face continued high levels of military, economic, and political turbulence as the Iran-Iraq war intensifies. Continued softness in the world oil market puts further stress on the region's already troubled economies, but most of the governments in the area appear secure in the short run.</p>		25X1
<b>Persian Gulf: Political Risk Assessment for 1986</b>	5	25X1 25X1
<p>The political risk level for countries in the Persian Gulf region ranges from low to moderate, with Bahrain, Iran, South Yemen, and Kuwait most exposed to political risk in 1986. This assessment does not address the potential for a lone assassin's bullet, unforeseen regional or domestic crises, or unexpected global events.</p>		25X1
<b>The Iran-Iraq War: Outlook for 1986</b>	7	25X1 25X1
<p>The potential for escalation of the Iran-Iraq war will remain high in 1986, even though the fighting may be less intense than in 1985. Baghdad probably will expand its air campaign against Iranian economic targets and may resume attacks on cities as well, while a ground offensive is the only effective option available to Tehran.</p>		25X1
<b>Iran in 1986: War and Economic Decline</b>	11	25X1 25X1
<p>The Iranian regime's principal challenge in the coming year will be to contain rising dissatisfaction with the war and the economy and to prevent this discontent from turning into an effective antiregime movement. Khomeini is likely to allow the war with Iraq to wind down only if he believes its continuation would endanger clerical control.</p>		25X1

Secret

25X1

**Iraq in 1986: Growing Frustrations**

15

25X1  
25X1

The Iraqi regime appears firmly enough entrenched to weather another year of war, but sagging morale and the prospect of internal political unrest will increase the pressure on Baghdad to try to force Iran to the bargaining table sooner rather than later.

25X1

**Saudi Arabia in 1986: Leadership Challenges**

19

25X1  
25X1

In the coming year Saudi Arabia is likely to face unprecedented difficulties in managing its relations with regional neighbors and the superpowers, formulating oil policy and maximizing oil revenues, and continuing to build a capability to defend itself, but the Saudis probably will muddle through as they did in 1985.

25X1

**Kuwait in 1986: Circling the Wagons**

23

25X1  
25X1

Terrorist incidents, economic malaise, and the election of a reform-minded National Assembly caused the usually outspoken Kuwaiti Government to lower its political profile in 1985. The economic recession and threats to Kuwaiti security are unlikely to ease in 1986, which may lead to shifts in political power within the ruling Sabah family.

25X1

**Bahrain in 1986: Facing an Uncertain Future**

27

25X1  
25X1

The Gulf-wide economic recession and the growing threat from Iranian-backed Shia extremists dominated Bahraini thinking in 1985. Bahraini officials will continue to worry during the coming year about the threat to their security from Tehran and from the growing number of local Shia youths being recruited by Iran for antiregime activities.

25X1

**Qatar in 1986: Regional Recluse Slumbers On**

31

25X1  
25X1

Qatar was virtually untouched by the two major threats—recession and terrorism—that preoccupied its Gulf neighbors during 1985, and it is unlikely to change any basic policies or attitudes in 1986. It will try to remain invisible internationally while it accommodates potential sources of domestic unhappiness.

25X1

Secret

Secret

25X1

**The United Arab Emirates in 1986: Thinking About Security**

35

25X1  
25X1

The seven shaykhdoms that comprise the United Arab Emirates spent most of 1985 bickering among themselves over budgets and borders. UAE leaders will make little progress in 1986 in resolving the political stalemate or making the tough economic decisions necessary to stabilize the Federal Government.

25X1

**Oman in 1986: Asserting Itself**

39

25X1  
25X1

Muscat's independent foreign policy was the dominant theme in 1985, demonstrated by its access agreement review with the United States and its establishment of relations with the USSR. Oman will maintain its more active foreign policy in 1986 as Sultan Qaboos seeks to lead Oman closer to the moderate Arab camp.

25X1

**South Yemen in 1986: Moderates on the Defensive**

43

25X1  
25X1

President Hasani and his moderate faction emerged from the Yemeni Socialist Party's congress in a weakened position, and divisions within the leadership, shifting political alliances, and deep-seated economic problems will ensure a turbulent environment that could permit the Soviets to expand their influence in the coming year.

25X1

**North Yemen in 1986: Lean Year Ahead**

47

25X1  
25X1

President Salih continued to demonstrate his mastery of North Yemeni politics, and, although he will not face serious challenges from domestic opponents in 1986, he will have to keep the economy afloat and dampen popular expectations until oil revenues start flowing.

25X1

**Annex: Political Risk Assessment Methodology**

53

25X1  
25X1

In assessing political risk, five major components of political stability were taken into account: leader, leadership, military and security services, social and economic pressures, and opposition.

25X1

Secret

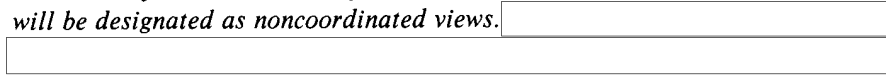


25X1



25X1

*Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views.*



25X1

Secret

Secret

25X1

## Articles

---

**The Persian Gulf in 1986:  
Another Turbulent Year  
in the Offing**

25X1

The Persian Gulf region during 1986 will face continued high levels of military, economic, and political turbulence. The Iran-Iraq war is likely to intensify as Iraq steps up attacks on Iranian economic targets and Tehran retaliates. Continued softness in the world oil market and the possibility of a sharp decline in oil prices will put further stress on the region's already troubled economies. Although most of the governments in the Gulf area appear secure in the short run, there are pockets of potential instability, such as in Bahrain, and continued adverse economic and military trends will create new challenges for leaders in a number of states. The persistent turbulence also will generate new opportunities and pitfalls for US policy and provide further openings for the Soviet Union to expand its influence with countries in the area.

**The Year That Was**

The Persian Gulf region weathered 1985 without a major new crisis. Trouble spots abounded, however, particularly in the Gulf, where Iraq escalated its conflict with Iran in mid-August by beginning a series of air attacks on Khark Island—the loading point for some 85 percent of Iranian oil exports—to force Tehran to the bargaining table. Although Iraqi strikes caused Iran's oil exports to drop by half briefly in September, repairs to facilities on the island allowed shipments to return to near normal levels of about 1.6 million barrels per day by mid-October. Meanwhile, the ground war between the two states lapsed into a series of border skirmishes after the failure of a large spring offensive by Iran in the southern marshes near Al Basrah.

Despite widespread fears of retaliatory Iranian attacks on the smaller Gulf states, Iran's response to the Iraqi raids on its economic lifeline was limited.

Tehran's cautious reaction reflected the limited economic impact of Baghdad's attacks and underscored Iran's fear of superpower intervention, its hopes of persuading the Gulf Arab states to curtail their support for Iraq, and Tehran's weakened military capabilities. Nonetheless, apprehensions about possible Iranian military or terrorist operations caused the members of the Gulf Cooperation Council (GCC) to draw closer together and to broaden cooperation on some military issues.<sup>1</sup>

25X1

The past year produced no serious threats to the regimes in any of the Gulf states, but the potential for instability grew in a number of countries. The governments in Iraq and Iran remained firmly in control despite growing frustration with the war, sporadic outbursts of opposition activity, and continued factional maneuvering in Iran. In northern Iraq, Kurdish dissident activity spread and became more worrisome for Baghdad. The Gulf Arabs increased efforts to monitor the activities of their Shia communities for signs of disloyalty and Iranian-backed dissidence. Reports of planned terrorist operations in the Gulf area were frequent, and several incidents did occur, including an assassination attempt on the Amir of Kuwait and two unexplained bombings in Riyadh.

25X1

The depressed world oil market continued to take its toll on the economies of the Gulf states. Declining oil revenues led to a general business slowdown and forced virtually all Gulf states to cut budgetary expenditures. By dipping into dwindling foreign exchange reserves, however, most states survived 1985 without resorting to politically sensitive austerity measures.

25X1

25X1

25X1

<sup>1</sup> The members of the Gulf Cooperation Council are Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, and Oman.

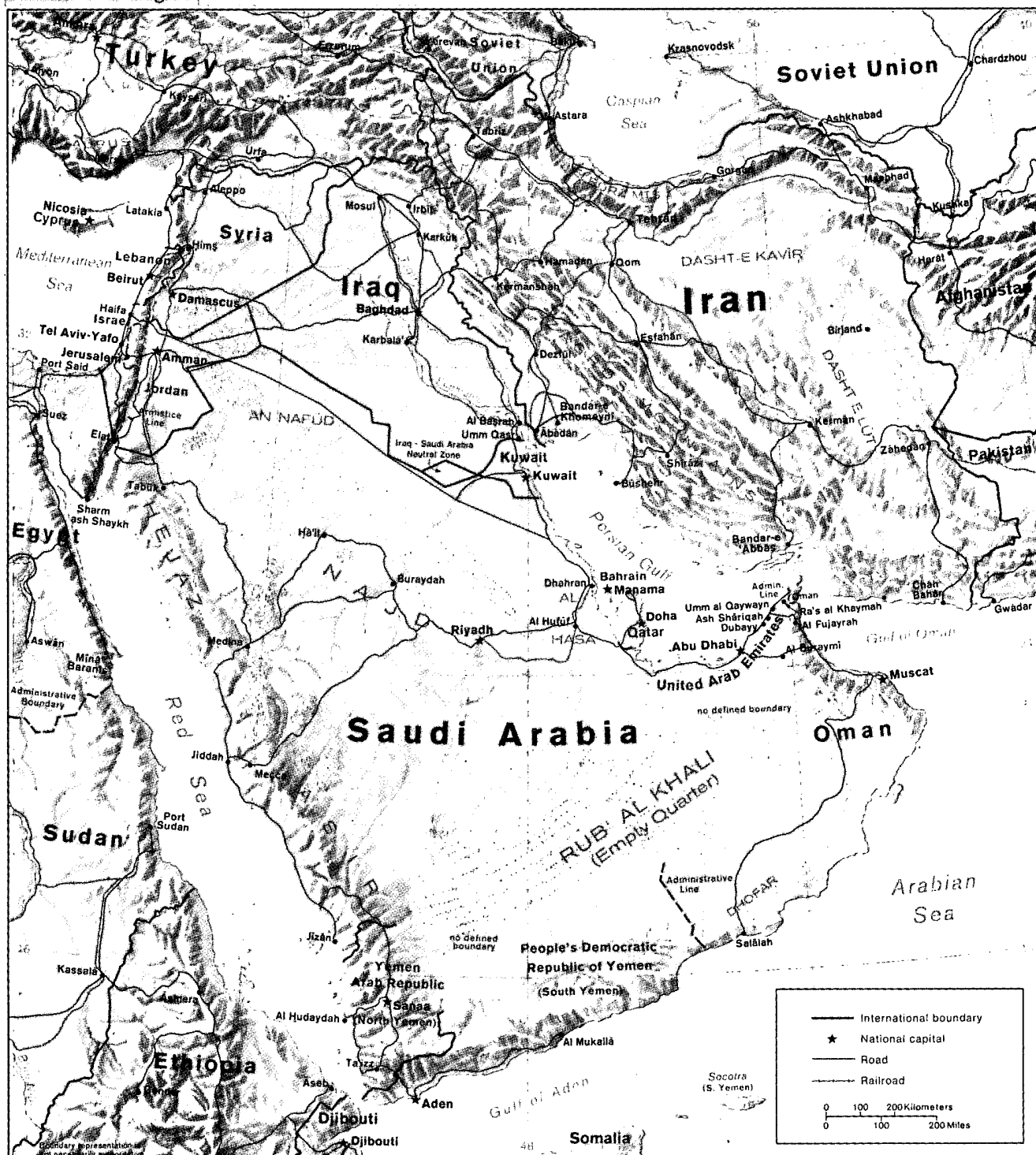
25X1

Secret

NESA NESAR 85-025  
22 November 1985

Secret

## Persian Gulf Region



600132 5-84

Secret



Secret

**The Coming Year**

There is a significant risk that the problems facing the Persian Gulf region will intensify in 1986. During the coming months the Iran-Iraq war is likely to heat up as Baghdad attempts to increase the pressures on Iran's economy and Tehran retaliates, perhaps by launching further ground offensives, resuming missile attacks on Iraqi cities, or increasing efforts to block arms shipments to Iraq. Iranian leaders will be reluctant to expand the conflict and invite international intervention as long as their oil exports are not disrupted for a significant length of time, but Iran will retain the capability to launch sporadic air or naval attacks against targets in the Gulf states and has the assets to mount a terrorist campaign in those countries. [ ]

The Arab Gulf states will remain preoccupied by such threats, and the GCC members will make further efforts to close ranks to deal with them. Closer military and security cooperation may occur, but, except for Saudi Arabia and Oman, the capabilities of these states to deal with Iranian military attacks or a concerted campaign of subversion will continue to be limited. The Gulf states may also try to put some distance between themselves and Iraq—at least publicly—in hopes of appearing more evenhanded to Iran. [ ]

The coming year offers few hopes for a dramatic rebound in the Gulf economies. Demand for oil will probably remain stagnant, and there is a good chance that prices will fall, perhaps dramatically. None of the Gulf states appear prepared for the tough economic policy decisions that may be necessary to deal with their deepening problems. Many Gulf leaders, as well as most citizens, view the gloomy economic picture as a temporary phenomenon and refuse to acknowledge the need for long-term adjustments. Continued high, popular expectations are likely to clash with economic realities, particularly if, as we expect, the governments in the area are forced to reduce spending on heretofore sacrosanct social programs. Such austerity measures, moreover, will generate increased public criticism of extravagance and corruption within ruling families. [ ]

The economies of Iran and Iraq will remain under stress because of the war, but economic problems are unlikely to impede seriously either side's ability to

fight. Both Iran and Iraq are positioning themselves for an extended conflict. Iraq's new oil pipeline through Saudi Arabia is allowing it to increase exports, thus improving its troubled financial position and enhancing its ability to continue the war. Iran is attempting to counter Iraqi efforts to destroy its oil export terminals on Khark Island by constructing alternative export facilities. Iraq realizes that Iran's economy is its Achilles' heel and is likely to increase its attacks on vital economic targets in Iran in hopes of eroding support for the clerical regime and forcing it to negotiate an end to the conflict. Sporadic outbursts of discontent over economic hardships are likely in Iran during the coming year, but the government is capable of suppressing isolated strikes or protests. [ ]

25X1

25X1

**Key Uncertainties**

A number of developments could plunge this already troubled region into even deeper turmoil. These include:

- A devastating blow by Iraq to the Iranian economy that caused Tehran, in desperation, to attack vital economic targets in the smaller Gulf states or mine key ports and waterways—actions that would precipitate calls for US intervention.
- An Iranian ground offensive that succeeded in capturing a large slice of Iraqi territory or an important city, thereby severely weakening the Iraqi regime.
- The assassination of a key Gulf leader such as Iraqi President Saddam Husayn or members of the Saudi royal family.
- The death of Ayatollah Khomeini and a resultant upsurge in domestic factionalism and turmoil in Iran.
- The overthrow of an area government by radical forces such as the Shias of Bahrain.
- An Israeli airstrike against a Palestinian facility, perhaps in Iraq or North Yemen, that humiliated the regime and galvanized anti-US sentiment in the region.

25X1

25X1

**Secret**

- A dramatic decline in world oil prices that forced Gulf governments to implement hard-hitting austerity measures.

25X1

**Implications for the United States**

US interests in the Persian Gulf region suffered a number of setbacks in 1985. The US refusal to sell additional F-15 fighter aircraft to Saudi Arabia disappointed Saudi leaders and caused them to purchase instead Tornado aircraft from the United Kingdom. Strains also developed in Omani-US ties during negotiations over the US military access accord. Developments in other areas of the Middle East—in particular, the Israeli raid on the PLO headquarters in Tunis and the US capture of the Achille Lauro hijackers—created further chills in US relations with the Gulf Arabs, including Iraq.

25X1

The decision by Oman and the United Arab Emirates to establish diplomatic ties to the Soviet Union was a major breakthrough for Moscow and underscores a warming trend toward the USSR that is evident throughout the Gulf. Even staunchly anti-Communist Saudi Arabia had official bilateral contacts with the Soviets for the first time in decades. If the other Gulf states follow suit, the Soviets will gain an increased presence and potential influence in a region that previously was largely hostile.

25X1

The coming year probably will bring further challenges to US interests in the Gulf area. In a climate of strong Islamic fundamentalism and anti-Israeli sentiment, close ties to the United States are increasingly seen as a liability by some Gulf leaders. Nonetheless, most Gulf Arabs will continue to look to Washington as the ultimate guarantor of their security, providing continued opportunities for US policy in the region.

25X1

25X1

**Secret**

Secret

Persian Gulf: Political Risk  
Assessment for 1986

25X1

The political risk level for countries in the Persian Gulf region in 1986 ranges from low (Saudi Arabia) to moderate (Bahrain). Principal factors of political risk vary widely within the region:

- Internal and external opposition is the greatest threat to the regimes in Bahrain, Kuwait, and Iraq.
- Uncertainty surrounds the health, capabilities, or performance of the leaders of Iran, Saudi Arabia, Oman, and Qatar.
- Tensions within the senior leadership are troublesome in the United Arab Emirates and South Yemen.
- The loyalty, effectiveness, and cohesion of the military are suspect in North Yemen.

This assessment reflects the views of analysts on existing and expected conditions and pressures within the 10 countries of the Persian Gulf region that could prompt untoward political developments over the next year. The assessment does not address the potential for a lone assassin's bullet, unforeseen regional or domestic crises, or unexpected global events that could significantly alter risk levels. According to our assessment, four countries—Bahrain, Iran, South Yemen, and Kuwait—are most exposed to political risk in 1986.

In addition to ranking countries according to their overall exposure to political risk, our assessment notes that:

- The countries with the closest security ties to the United States—Saudi Arabia and Oman—are exposed to the least political risk.
- In the aggregate, “the leader” and “leadership” categories predominate, reflecting the concentration of political power in the region’s traditional and autocratic systems of government.

<sup>1</sup> For the purposes of this study, we define political risk as exposure to events that increase prospects for political unrest, violence, or regime change.

25X6

- Social and economic factors are not considered the foremost risk factor in any country, but they pose significant challenges to the governments of Bahrain, Iran, Kuwait, Iraq, North Yemen, Bahrain, Iran, and South Yemen—all exposed to the greatest overall political risk—have weak economies with poor prospects for improvement in 1986.

25X6  
25X6

- In Bahrain and Kuwait, internal and external opposition elements pose a serious terrorist and subversive threat. This threat is considered minimal in other Arab Gulf states.

25X1

- There is a relatively equitable distribution of political risk factors in Iraq, North Yemen, In contrast, Bahrain, Iran, South Yemen, Kuwait, and the UAE are particularly exposed to single risk components.

25X6  
25X6

25X1

In addition to the information presented in the chart, country analysts believe that:

- With the exception of Oman and North Yemen—where risk levels will remain the same or decline slightly—the degree of political risk for countries in the Persian Gulf region will be greater in 1986 than it was in 1985.

25X1

- Political unrest, violence, or instability in any country of the Persian Gulf region threatens US interests—including in Iran and South Yemen, where power shifts probably would bring more radical factions to the fore.

25X1

<sup>2</sup> The Office of Near Eastern and South Asian Analysis solicits the views of regional specialists in other offices on this assessment.

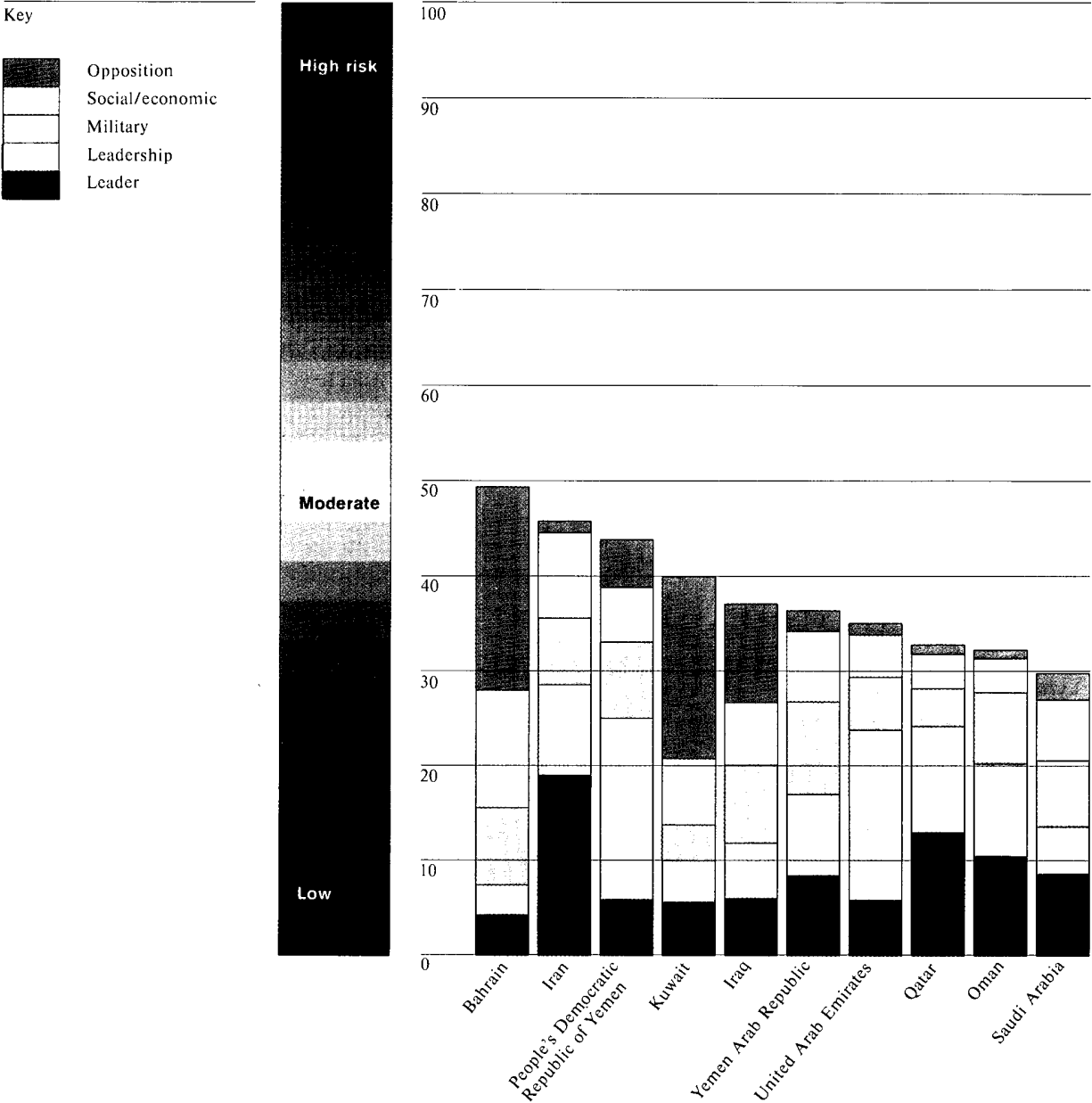
25X6

25X1

25X1  
25X1

Secret

Persian Gulf: Political Risk Assessment for 1986



307450 11-85

25X1

Secret

Secret

### The Iran-Iraq War: Outlook for 1986

25X1

The potential for escalation of the Iran-Iraq war will remain high in 1986, even though the fighting may be less intense than in 1985. Iran and Iraq are unlikely to reconcile their political differences and agree to a cease-fire. Both sides will continue to seek ways to break the military stalemate. Baghdad probably will expand its air campaign against Iranian economic targets and may resume attacks on cities as well to force Tehran to the bargaining table. A new ground offensive is the only effective option available to the clerical regime in Tehran, even though it would entail significant military and political risks.

#### The War in 1985

Iraqi forces won a significant victory last spring when they defeated a major Iranian offensive in the marshes north of Al Basrah. Baghdad also intensified its attacks against oil tankers in the Persian Gulf and launched a new wave of air raids on Iranian cities, convinced that such tactics would increase internal dissension in Iran and force Tehran to negotiate an end to the war. Iran responded by firing Scud surface-to-surface missiles at Baghdad. In addition, Iranian ground forces began preparations for another major offensive on the Al Basrah front. Although Iraqi air raids probably increased popular unrest and antiwar sentiment in Tehran, the Khomeini regime was never seriously threatened, and Baghdad ended its city attacks in late June.

In midsummer, Iran shifted to a strategy of attrition in the ground war and began staging small attacks all along the border, hoping to keep the Iraqis off balance and weaken their morale. Iran also tried to exploit the deteriorating security situation in Iraqi Kurdistan by arming the principal Kurdish guerrilla groups and by launching at least three medium-sized offensives on the northern front near Haj Umran. The Iranian forces, however, have had little success and took heavy casualties in nearly all their larger attacks.

On 15 August, Iraq initiated a bombing campaign against Iran's principal oil export facility at Khark Island. Baghdad had decided that a disruption of Iranian oil exports would force Tehran to the bargaining table, and it repeatedly declared its intention to strike at Khark, oil tankers serving the island, and other Iranian economic targets. It had only temporary success in reducing Iranian oil exports. Tehran's ability to make repairs at Khark and its search for alternative ways to maintain oil exports have led Iraq to extend its attacks to offshore wells, pumping stations, and other targets on the Iranian mainland.

25X1  
25X1

In response to the Iraqi attacks on Khark, Iran intensified its efforts to seize ships suspected of carrying cargo bound for Iraq through the Strait of Hormuz. From late August to late November, Iranian warships stopped and searched at least 29 ships. Tehran also threatened to close the strait and widen the war in the Gulf if Khark Island were destroyed. A large-scale naval exercise in the southern Persian Gulf in early October—the largest Iran has ever conducted—probably was intended as a show of force to back up Tehran's threat.

25X1

#### The War in 1986

Neither Iran nor Iraq is likely to achieve a military breakthrough during the coming year. Both sides, however, will continue to try different strategies and tactics to achieve their political objectives.

25X1

25X1

Growing frustration with its inability to force Iran to end the war probably will cause Iraq to expand its efforts to disrupt the Iranian economy. Baghdad is likely to continue to favor a low-cost, low-risk

25X1

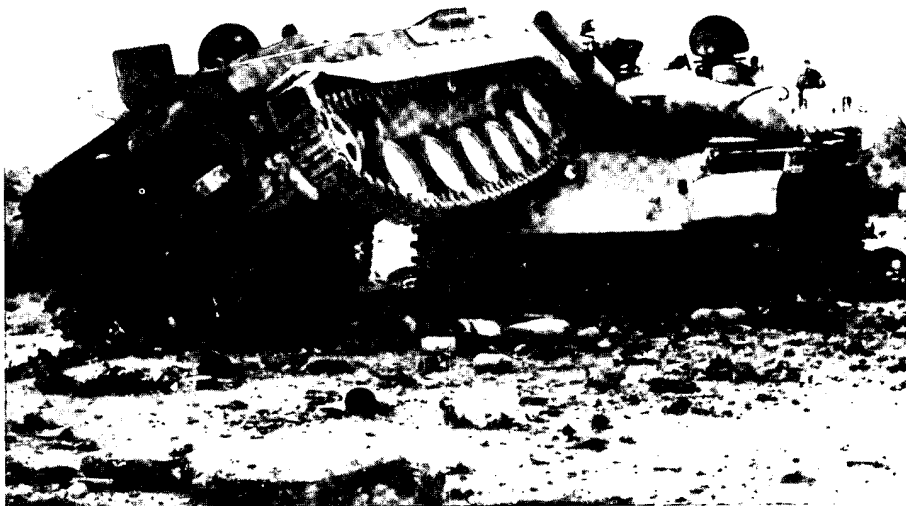
25X1

Secret

NESA NESAR 85-025  
22 November 1985

**Secret***Destroyed Iraqi armor* 

25X1



strategy, however, using minimal force to increase pressure on Tehran gradually. Increased attacks on Iranian targets also will help to maintain Iraqi morale and make more credible Baghdad's threats to escalate hostilities.

The Iraqis will keep up the pressure on Khark Island with sporadic, small-scale attacks to hinder oil loading and repair work and scare away some tankers. Tehran's refusal to negotiate, however, or an increase in Iranian oil exports may induce Iraq to abandon its cautious strategy and expand its operations in the Gulf. Although reluctant to accept the higher costs and risks of such operations, Baghdad recognizes that additional revenue would strengthen the Iranian regime and help Iran to rebuild its military might.

Iraq could also expand its operations against economic targets inside Iran. Iran's three main hydroelectric stations and the oil refineries at Tehran and Esfahan, for example, are vulnerable, and even limited damage to these facilities could cause serious economic problems. Baghdad might also resume bombing Iranian cities to try to undermine popular support for the war and the regime.

Iran has fewer options. It is most likely to continue its ground war of attrition while trying to secure arms

and equipment from new sources. The Iranian leadership has said little lately about a "final" offensive but instead has talked only of an attack at an opportune time.

a lack of tanks, artillery, and other heavy equipment would continue to limit Iran's ability to conduct large-scale, multidivisional operations. A more aggressive Iraqi air campaign, however, might force the Iranians to launch a major offensive sooner than they would prefer.

Tehran also will have to decide how best to utilize its limited air and naval forces. Iran will continue to try to seize ships suspected of carrying cargo for Iraq, and it probably will increase air attacks against targets in Iraq and shipping in the Persian Gulf. Tehran's efforts to improve relations with its Gulf Arab neighbors, however, as well as its desire to avoid international intervention, suggest that Iranian retaliation will remain tempered.

#### **Key Uncertainties**

A sustained Iraqi effort that significantly disrupted Iran's oil exports for an extended period or seriously damaged other Iranian economic facilities could

25X1  
25X1

25X1

25X1

25X1

25X1

**Secret**

Secret

compel Iran to retaliate more forcefully. The clerics in Tehran might decide to launch a "final offensive" in a last-ditch effort to break Iraq's will to fight. Iran could also widen the war in the Gulf by attacking oil facilities in the Gulf Arab states or by attempting to close the Strait of Hormuz.

25X1

Already fragile Iraqi military and civilian morale could come dangerously close to breaking if the war drags on and becomes more costly. This would be particularly true if Iran won a significant victory on the southern front or succeeded in undermining Baghdad's control of Iraqi Kurdistan by exploiting Kurdish guerrilla activity there. In either event, Iraqi dissident groups would be emboldened, increasing the prospects of coup plotting.

25X1

#### **Implications for the United States**

Even if Iraqi escalation and Iranian retaliation failed to achieve either country's goals, heightened hostilities would increase considerably the threat to US forces and allies in the region:

- Oil exports could be disrupted temporarily, although intervention by US and Western naval forces would be sufficient to restore safe passage for shipping to and from Gulf ports.
- Iraqi and Iranian military forces would not target US forces, but US bases and ships might be hit accidentally or become involved as hostilities spread to the southern Gulf.
- Tehran might order Iranian-sponsored terrorists to attack US personnel and facilities in the region in response to perceived US support for Iraq.
- The Gulf states would expand and accelerate their requests for US equipment in response to Iranian attacks or terrorism in the area.
- The Gulf Arab states would not ask for an increased US military presence as long as Iranian attacks were limited and sporadic, but they might call for US naval protection in the event of a sustained Iranian campaign against shipping.

25X1

25X1





Secret

Iran in 1986:  
War and Economic Decline

25X1

The Iranian regime's principal challenge in the coming year will be to contain rising dissatisfaction with the war and the economy and to prevent this discontent from turning into an effective antiregime movement. The regime stifled overt expressions of antiregime sentiment in 1985 only by resorting to harsh repression. Growing popular turmoil is likely to intensify the infighting between factions in the regime and to increase the chances that their disputes will turn violent, especially if Khomeini's fragile health prevents him from acting as a moderating influence. Khomeini is likely to allow the war with Iraq to wind down only if he believes its continuation would seriously endanger clerical control.

Developments in 1985

The war with Iraq has significantly eroded popular support for the regime over the past year:

- The failure of a major Iranian offensive in March—which resulted in about 30,000 casualties—and the onset of Iraqi air raids produced large antiwar demonstrations in most major cities, including lower-class areas of South Tehran, normally a stronghold of support for the regime.
- Tehran's concern about growing domestic unrest was a major factor in its decision to delay launching a second offensive last spring.

The soft oil market and Iraqi attacks have reduced oil revenues—which provide 95 percent of foreign export earnings—by about 30 percent since August 1984. To shore up dwindling foreign exchange reserves, Tehran has slashed imports by at least one-third. Shortages of spare parts, raw materials, and electric power have caused already weak industrial output to fall about 25 percent. Water, power, and medical services are at postrevolutionary lows. These and other economic troubles provoked strikes and antigovernment demonstrations earlier this year.

There have been indications of attempts to organize a coordinated opposition. Strikers in several Iranian

**Iran: Basic Data**

Population	44.5 million
Government	Theocratic republic
Supreme spiritual and political leader	Ayatollah Khomeini
Head of state	President Ali Khamenei
Religion of population	93 percent Shia 5 percent Sunni 2 percent Christian, Jewish, and Baha'i
Literacy rate	48 percent
Student share of population	21 percent
Oil production	2.3 million b/d (estimate) in 1985
Official foreign assets	\$5 billion (at yearend)
Gross domestic product	\$80 billion
Size of armed forces	800,000 to 1,000,000

25X1

25X1

25X1

cities timed their actions to support each other, and an underground labor organization in Esfahan claimed responsibility for organizing strikes in several cities.

25X1

25X1

Secret

Despite these serious problems, the regime is not immediately threatened because its opponents are weak and it firmly controls the instruments of power. Moreover, a significant portion of the populace still strongly favors a government guided by Islamic principles. [ ]

#### Prospects for 1986

The regime's determination to continue the war with Iraq represents the greatest threat to internal stability. Another failed offensive with heavy casualties, especially if coupled with renewed Iraqi airstrikes on Iranian cities and economic targets, probably would provoke larger, more sustained, and better organized demonstrations than occurred last spring. Should such demonstrations assume a cyclical character and come under the leadership of a respected figure such as senior conservative cleric Grand Ayatollah Qomi, they would present a serious challenge to the regime and indicate it was beginning to lose its grip on power. In 1978 demonstrations occurring at 40-day intervals to honor the martyrs of previous protests were a major vehicle for rallying opposition to the Shah. [ ]

The continued decline of the economy will provide fertile ground for renewed strikes and protests over inflation, unemployment, and shortages of goods. The average Iranian's standard of living will decline next year as negligible economic growth is spread over a rapidly expanding population. The war will remain a significant drain on resources, and continued Iraqi attacks on economic targets will have a direct if unpredictable effect on industry and oil exports. [ ]

In the event of further worker protests, the occurrence of widespread sympathy strikes and proclamations of solidarity by other workers' groups would be important clues to the depth of discontent with the regime. Particularly threatening would be strikes by oil production workers, who played a significant role in undermining the Shah. [ ]

Squabbling among Iranian leaders over the war and the economy is likely to intensify the division between radical and conservative factions that is hampering the government's ability to deal with its most pressing problems. Deep differences over the regulation of

foreign trade, land reform, the urban housing crisis, and new civil taxes have prevented major legislation on these issues. [ ]

Maneuvering by political leaders to strengthen their positions in anticipation of Khomeini's death will sharpen the factional disputes and increase the potential for violence. All factions within the regime recognize the importance of the Revolutionary Guard to clerical control and are trying to line up support within it. These efforts have deepened splits within the Guard, and there were reports of clashes between rival Guard factions in Tehran earlier this year. Guard Commander Rezai and at least three other radical leaders have organized private militias, each of which is capable of mobilizing several thousand men, in expectation of eventual conflict with moderates and conservatives. [ ]

A key factor affecting the regime's stability will be Khomeini's ability to moderate conflict between the factions and to rally popular support for the regime. Khomeini has longstanding coronary heart disease and is likely to suffer repeated episodes of angina or minor strokes. He also experiences symptoms of senility, including memory loss and confusion. During the first half of 1985 these symptoms forced him to withdraw from all contact with his staff for as many as 10 days a month. He appears to have rebounded since then, and his intervention has been crucial in effecting compromise between radicals and conservatives over the choice of a President and Prime Minister. Although Khomeini has generally tilted toward the conservatives during the past year by favoring expanded international contacts and a greater economic role for the private sector in the economy, he is also trying to prevent a dramatic change in policy that would bring a radical backlash. [ ]

Iran is likely to continue efforts to broaden its international contacts and to present a more moderate image during the coming year. In a recent speech to Iranian diplomats, Khomeini urged them to reduce Iran's diplomatic isolation and stressed that the Islamic revolution cannot be exported through

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret



Ayatollah Khomeini [ ]

military action. Economic problems, the war, and frigid relations with Moscow will give added importance to Iran's economic and political ties to the West. Two-thirds of Iran's trade already is with OECD members. Iran will try to entice potential arms suppliers with the prospect of major economic agreements. Tehran will continue efforts to expand its influence and gain new sources of arms in the Third World by offering oil on concessionary terms, gifts of food and medicine, and scholarships. [ ]

#### Key Uncertainties

In the event of Khomeini's death, a relatively smooth transition is likely. Ayatollah Montazeri is Khomeini's handpicked successor, and the clerics will try to prevent their divisions from being exploited by opponents of the regime. Without Khomeini, however, there will be no one with the charisma and stature to prevent clerical infighting from eventually getting out of hand. [ ]

The war is likely to remain a key issue dividing the factions and hence a factor for instability. A dramatic success at the front would give the radicals the upper hand in the factional struggle. This probably would provide the regime in Tehran only a temporary respite from the threat of domestic unrest, however, unless it could convert the breakthrough into further victories. [ ]

On the other hand, if Baghdad succeeds in significantly curtailing Iranian oil exports for a prolonged period or if oil prices fall dramatically, Iran

will face almost insurmountable financial problems. Attacks on other facilities such as power stations, refineries, or factories could worsen shortages of essential commodities and cause even wider public discontent. [ ]

#### Implications for the United States

Serious instability may strengthen the radicals, who dominate most of the internal security organizations. A victory for the radicals probably would lead to an upsurge in Iranian-sponsored terrorism, which dropped off substantially in 1985. Regardless of the factional struggle in Tehran, Iran almost certainly will sponsor terrorism against the Gulf states and US interests in the Persian Gulf region if it comes under severe economic and military pressure from Iraq. [ ]

Growing instability may also increase Soviet opportunities to cultivate contacts with leading radicals and among Iran's minorities and to intensify support for leftist opposition groups. Moreover, continued Iranian inability to buy sufficient arms may encourage Tehran to make more serious efforts to improve ties with the Soviet Union. If Moscow saw opportunities for significantly expanded Soviet influence, it might consider relaxing its embargo on the sale of major weapon systems to Iran. Short of this, however, Moscow will continue to give Tehran a cold shoulder. [ ]

On the positive side, Iran's growing economic ties to the West will lessen its isolation and provide an alternative to Soviet or other radical state influence. [ ]

25X1

25X1

25X1

25X1

25X1

25X1  
25X1

25X1

25X1

Secret



Secret

## Iraq in 1986: Growing Frustrations

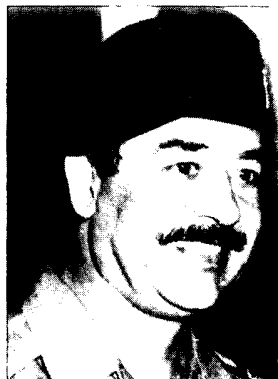
25X1

The Iraqi regime appears firmly enough entrenched to weather another year of war, but sagging morale and the prospect of internal political unrest will increase the pressure on Baghdad to try to force Iran to the bargaining table sooner rather than later. The Iraqis are increasingly frustrated over their inability to find a way to end the conflict and are less certain than before that such a possibility exists. Besides escalating its attacks on Iranian oil and industrial targets, Iraq will increasingly press Syria and Libya to end their support for Iran and for Kurdish and Shia dissidents in Iraq. Baghdad also will bolster the moderate faction of the PLO to prevent Syria and other Arab radicals from dominating the Palestinian movement. Increasing Iraqi support for the PLO probably will strain relations with the United States. [ ]

### Developments in 1985

Iraqi morale has generally declined during 1985, although the Iraqis have maintained the will to fight and President Saddam Husayn retains a strong grip on power. A year ago the Iraqis were convinced their strategy of pressing Iran on the military, diplomatic, and economic fronts was succeeding. Optimism bordering on euphoria followed the defeat of a major Iranian ground offensive in March, but this soon faded as the Iraqis learned the extent of their casualties and as Iran continued its war of attrition. US officials say morale in Baghdad suffered further in June, when Iran launched Scud missile attacks on the capital, which had largely escaped the physical effects of the war for over two years. In September, the US Embassy reported that even members of the ruling Ba'th Party seemed to be displaying less enthusiasm for the war, and [ ]

[ ] found civilian morale at its lowest point in two years. The Embassy states that public executions of Army deserters in Baghdad in November may have reflected concern about a rise in desertions and draft dodging. In short, the seemingly endless nature of the fighting has taken its toll on the morale of the war-weary Iraqis, who have so far suffered over 350,000 casualties, the equivalent of



President Saddam Husayn [ ]

25X1

over 5 million in a population the size of the United States. Meanwhile, Baghdad has had only slight success in its campaign to weaken Iranian morale. [ ]

25X1

25X1

The year 1985 also brought increased fighting by Kurdish rebels in northern Iraq. The second-largest Kurdish faction, Jalal Talabani's Patriotic Union of Kurdistan, resumed guerrilla activities last spring following the failure of talks with the government the previous fall concerning regional autonomy. The PUK and the larger Kurdish Democratic Party, led by the Barzani brothers, increased their control over the mountainous border regions north of Mosul, Irbil, and Kirkuk and even conducted operations within these cities, according to the US Embassy. The rebels' activities have forced Baghdad to apply harsh repressive measures, which have caused new resentment among the Kurdish population. In October demonstrations erupted in the Kurdish city of Sulaymaniyah, and, according to Embassy reporting, martial law was imposed on the city and nearby Irbil. [ ]

25X1

25X1

25X1

Secret

NESA NESAR 85-025  
22 November 1985

Secret

**Iraq: Basic Data**

Population	15.5 million; 92 percent native
Government	Nominal republic ruled by the Ba'th Party of Iraq
Head of state	President Saddam Husayn
Religion of native population	55 percent Shia Muslim Arabs 22 percent Sunni Muslim Arabs 18 percent Sunni Muslim Kurds 5 percent Christian and other
Literacy rate	50 percent
Student share of population	25 percent
Oil production	1.7 million b/d (October 1985 estimate)
Official foreign assets	\$2 billion yearend 1984
Gross domestic product	\$27 billion (1984 estimate)
Size of armed forces	750,000

Elsewhere in the country, the effective and ruthless security services have eliminated most active opposition by Shia dissidents and cowed most potential activists. [redacted] however, Shia dissidents battled elements of the Republican Guards Division in early October near Al Khalis—the most significant unrest outside Kurdistan in several years. [redacted]

Principal economic developments in 1985 included the expansion of Iraq's oil export capability and the rescheduling of its large foreign debts. Baghdad's pipeline to Saudi Arabia was completed in October and has increased oil exports by almost half, providing a significant boost to Iraq's oil sector, which accounts for two-thirds of the country's gross domestic product. Iraq muddled through a serious payments crunch this year by rescheduling debts to all but its most important creditors. Heavy borrowing, together with greater reliance on the private sector, has helped maintain living standards despite the war and the weak oil market. Inflation, manpower shortages, and a significant slowdown in development projects are other effects of the war. Price controls and the employment of large numbers of women have helped to mitigate these consequences. [redacted]

**Prospects for 1986**

Saddam Husayn is unlikely to lose his grip on power next year but will face more challenges to his rule. Kurdish rebels probably will strengthen their hold on the mountainous region along the Turkish border and around Sulaymaniyah and will expand guerrilla activities along major highways and in cities in the north. The regime may have to reconsider its policy of trying to handle disruption in the north without transferring significant numbers of troops away from the Iranian front. Outside Kurdistan, Iraq's effective security services probably will continue to deter most potential dissidents. Even so, Shia dissidents are likely to increase terrorist activities against government and military personalities. Mounting casualties from guerrilla and terrorist actions will take their toll on civilian and military morale. [redacted]

Iraq's economy should marginally improve. Barring a collapse in oil prices, oil revenues will rise about 40 percent over 1985. Debt financing will still be a concern, but most creditors seem resigned to continue extending credit. Many debts have been restructured from short-term obligations into more manageable long-term loans. Consumer goods should be more available. [redacted]

Secret

Secret

Efforts to force Iran to end the fighting will continue to dominate Iraq's foreign policy and will involve a three-pronged strategy:

- Pressure on Western and Communist states to stop selling arms to Iran.
- Airstrikes against Iranian oil facilities and other economic targets to increase the political costs of continuing the war.
- Diplomatic initiatives designed to isolate Iran and its allies, Syria and Libya, and to encourage mediation. [ ]

No dramatic change is likely in Iraq's relationship with the Soviets, who will remain Iraq's principal arms supplier. Relations will continue to be strained, however, over the shipments of arms to Iran by Communist countries and Libya. [ ]

Although Iraq had reduced its involvement in Arab politics to focus its energies on the war, developments in the region will force Baghdad to play a greater role in 1986. The Iraqis are eager to end Syrian and Libyan military support for Tehran and for Kurdish and Shia dissidents in Iraq. To this end, according to the US Embassy, Iraq is exploring ways to achieve reconciliation with Damascus and Tripoli. Iraqi officials met with a Syrian delegation in October and a Libyan delegation in November, according to press reports. [ ]

The Iraqis are pessimistic about whether these efforts will show significant progress soon, and they will continue to try to impose political costs on Syria and Libya for their opposition to Iraq. Baghdad broke diplomatic relations with Tripoli last June after Libya signed a strategic alliance with Iran. According to the Libyan and Iraqi press, Baghdad is providing a safe-haven for Libyan exiles and allowing them to make radiobroadcasts, which greatly upset Tripoli. The Iraqis are also providing military aid to Libya's neighbor, Tunisia. [ ]

Iraq talked with the PLO in September about possible terrorist attacks against Syrian interests. For its part, Libya may be targeting Iraqi personalities. According to the press, a Libyan was arrested in Cyprus for the recent assassination of an Iraqi Airways official. [ ]

Iraq will become the champion of the moderate faction of the PLO to prevent Syria and other Arab radicals from dominating it and increasing their sway over Iraq's moderate allies, particularly Jordan. Baghdad's recent diplomatic initiative urging Arab leaders to send critical letters to President Reagan is part of the effort to bolster Arafat, who had been weakened by Israel's raid on PLO headquarters in Tunisia and the Achille Lauro incident. Throughout 1986, Iraq and the PLO moderates are likely to be pitted against Syria and Libya in a contest that will include terrorist attacks against each other. [ ]

25X1  
25X1

#### Key Uncertainties

Several developments could increase instability in Iraq, weaken the war effort, and undermine Saddam Husayn:

25X1

- A significant increase in foreign support for Kurdish rebels might cause guerrilla activity to intensify, draw Iraqi troops from the frontline, and weaken morale throughout the country.
- A decline in world oil prices or sabotage of Iranian airstrikes against the oil pipelines through Turkey and Saudi Arabia would reduce Iraqi oil revenues and weaken morale and military capabilities.
- The already war-weary populace would be jolted by any major Iranian ground offensive that cut off Al Basrah, the country's second-largest city.
- Shia dissidents, sensing the regime's weakness, could engage in more terrorism, tying up security forces and weakening morale.

25X1

These events would increase the chance that military officers or Ba'thist civilians disgruntled over Saddam's conduct of the war would attempt a coup. Even if unsuccessful, the attempt could leave the leadership weakened and divided. [ ]

25X1

Possible developments that would improve the situation in Iraq are:

- Rapprochement with Libya or Syria that would reduce support for Iran and for Iraqi dissidents and would possibly lead to the reopening of the oil pipeline through Syria.
- Renewal of autonomy negotiations with Talabani aimed at securing a cease-fire and the PUK's support against the KDP. [ ]

25X1

25X1  
25X1

Secret

**Secret****Implications for the United States**

Iraqi-US relations are likely to be strained by Baghdad's support for Arafat and the PLO if, as is almost certain, Arafat's faction launches terrorist activities in Israel or the West Bank. The Iraqis have condemned terrorism against civilian targets and are likely to withhold support to other terrorist groups, such as 15 May, and Abu Nidal's Black June Organization, which is backed by Syria. Iraq's Foreign Minister, however, told US diplomats last year that terrorist acts against Israeli military targets are justified. The Iraqis are also likely to urge the PLO to target Syrian and Libyan interests. [REDACTED]

25X1

An enlarged PLO presence in Iraq increases the chance of an Israeli airstrike against PLO facilities there. This would further damage Baghdad's relations with the United States because the Iraqis would assume US complicity, or at least approval, of such Israeli action. An Israeli airstrike on Iraqi military installations, such as a chemical weapons production plant or the Tuwaitha nuclear facilities, would similarly harm US-Iraqi relations. [REDACTED]

25X1

Baghdad's relations with the two superpowers during the coming year also will depend on the dealings each has with Iran. The Iraqis will be highly suspicious of any US-Iranian dialogue and might interpret it as evidence of a US decision to draw back from its developing relationship with Iraq. Conversely, a substantial rearming of Iran with Soviet-made arms supplied by Communist countries or Iran's Arab allies would damage Iraq's relations with Moscow and encourage closer ties to the United States. [REDACTED]

25X1

25X1

[REDACTED]

**Secret**



Secret

Saudi Arabia in 1986:  
Leadership Challenges

25X1

In the coming year Saudi Arabia is likely to face unprecedented difficulties in managing its relations with regional neighbors and the superpowers, formulating oil policy and maximizing oil revenues, and continuing to build a capability to defend itself.

Nonetheless, the Saudis probably will muddle through as they did in 1985 with a problem-solving style that is a blend of caution and occasional bluster, procrastination, a strong desire for conciliation, and minimalist aspirations.

Saudi Arabia in 1985

The key problem for Saudi Arabia in 1985 has been the continuing decline of its economy. Revenues sank as oil production dropped to 2 million b/d, the lowest level in a decade, before Riyadh broke with its strict adherence to OPEC price and production levels in September. It abandoned its role as swing producer and attempted to market its full allotment of 4.3 million b/d at discounted prices. The revenue shortfall also prompted the government to make substantial cuts in construction and in the nonsalary allowances of civil servants, but Riyadh's actions were insufficient. As a result, the budget deficit reached an estimated \$20 billion, second largest in the world behind only the United States.

In the political arena, major developments occurred in Saudi foreign policy, particularly regarding the kingdom's relations with the superpowers. King Fahd visited Washington in February on the 40th anniversary of the meeting between President Roosevelt and King Abd al-Aziz, a meeting often regarded as the beginning of the "special relationship" between Riyadh and Washington. A string of incidents later in the year, however, brought relations to what the US Embassy in Riyadh called the lowest point since the Israeli invasion of Lebanon in 1982. These included the US decision not to sell F-15s to Riyadh, the Israeli attack on the PLO in Tunis, and the Achille Lauro hijacking and its aftermath. Meanwhile, the Saudis appeared to reassess the pros and cons of thawing relations with

Saudi Arabia: Basic Data

Population	9 million; 60 percent native
Government	Monarchy ruled by Al Sa'ud family
Head of state	Fahd bin 'Abd al-'Aziz Al Sa'ud
Religion of native population	98 percent Sunni Muslim 2 percent Shia Muslim
Literacy rate	50 percent
Student share of native population	20 percent
Oil production	3.5 million b/d estimated in 1985
Official foreign assets	\$106 billion yearend 1985
Gross domestic product	\$100 billion FY 1984
Size of armed forces	70,000, of which 20,000 are National Guard

25X6  
25X6

25X1

25X1

25X1

the Soviet Union. One of the King's sons visited Moscow in August—the first official visit since before World War II—and the first Soviet sports delegation is scheduled to visit the kingdom before the end of the year. Oman and the UAE's recent establishment of ties to the USSR underscores a warming trend toward Moscow in the Gulf.

25X1

Secret

King Fahd, Ambassador  
Bandar, and Fahd's son Abd  
al-'Aziz upon arrival in the  
United States in February



25X1

The US decision against selling F-15s to Riyadh resulted in the latter's purchase of advanced Tornado aircraft from the United Kingdom at a cost of nearly \$4 billion. The deal marks the first major Air Force purchase from a state other than the United States in 20 years and raises the possibility that the Air Force—the most capable of Saudi Arabia's military services—will be dominated by non-US equipment and professional contract personnel in the 1990s.

[REDACTED]

The security threat from Iran was tempered in 1985 by continued improvement in Saudi-Iranian ties, as highlighted by the visit of Foreign Minister Sa'ud al-Faysal to Tehran in May and the cooperative behavior of Iranian pilgrims during the hajj in August. Nonetheless, Saudi Arabia was not spared the terrorism that plagued the region. For the first time in memory, bombs went off in normally quiet Riyadh in May in front of two pizza parlors, killing one bystander. On two separate occasions, disgruntled Yemenis hijacked Saudia Airlines flights.

#### Saudi Arabia in 1986

The Saudis have cause for concern as they look ahead to 1986. The soft oil market shows no signs of the

turnaround needed for Riyadh to substantially boost oil revenues while maintaining OPEC unity. The Saudis appear to be readying themselves for continued hard times. Petroleum Minister Yamani stated in November that oil prices are likely to drop to \$20 per barrel by February 1986.

25X1

To deal with its economic problems, Riyadh will look for ways to make further spending cuts and increase revenues. Further reductions in expenditures, however, will be politically unpopular and difficult to implement. The government probably will target agricultural supports and may attempt to pare subsidies on water, electricity, and gasoline. In addition, it may impose an income tax, at least on expatriate workers. To increase revenues Riyadh will almost certainly continue its aggressive marketing of crude and expand its oil production. Riyadh could balance the budget if oil prices hold up and production is maintained at the 4.3-million-b/d OPEC quota, but, if oil prices plummet, the Saudis will face another year of deficits and may have to begin borrowing money in Western markets.

25X1

25X1  
25X1

Secret

Secret

[redacted]  
concerns about the economy and may give substance to rumors of imminent Cabinet changes. Some of the more credible include the dismissal of several low-level Cabinet members to give the appearance of a long overdue housecleaning, the replacement of Foreign Minister Sa'ud al-Faysal with Ambassador to the United States Bandar bin Sultan, and the retirement of Petroleum Minister Yamani and Planning Minister Hisham Nazir. [redacted]

Saudi Arabia probably will make subtle shifts in its relations to the superpowers. Riyadh may normalize ties to Moscow in 1986, and, if it does, it will time the move in part to send a message to Washington, as was the case with Oman. Although Riyadh will continue to view the United States as a key ally and its ultimate security guarantor, normalization of ties to Moscow would be symptomatic of the deterioration of the "special relationship" between Washington and Riyadh. [redacted]

Embarrassed by the Arabs' failure to convene a summit meeting in Riyadh, concerned about an expansion of the Iran-Iraq war, and worried that the region's plague of terrorism will spread to the kingdom, the Saudis will seek to mediate between and to reconcile regional adversaries such as Iraq and Syria. An Arab League summit meeting probably will be convened in Riyadh before the end of 1986, and Egypt's reentry into the Arab fold will be a key issue on the agenda. [redacted]

Riyadh will begin to take delivery in 1986 of the US-supplied AWACS and will start training for the Tornado program. These developments in its military modernization program will aggravate manpower shortages and hamper efficiency. Both programs will require that scarce manpower be drawn from other Air Force units. Friction in 1985 between the Saudis and the Pakistani units deployed in the kingdom may cause the Saudis to bring in a Bangladesh contingent, but Riyadh will still require a substantial Pakistani presence. [redacted]

#### Key Uncertainties

Although a crisis in the kingdom is unlikely, a dramatic deterioration in the economy [redacted] holds the greatest potential for sudden change in 1986. Riyadh's effort to regain its share of the oil market may trigger a price war early next spring, leading to a sudden decline in Saudi oil revenues. Resulting budget shortfalls would force Riyadh to make difficult policy decisions. It probably would be forced to make some combination of politically unpopular spending cuts and tax increases. In addition, Riyadh probably would further draw down its liquid reserves—now estimated at \$70-75 billion and declining at the rate of nearly \$2 billion per month—or begin borrowing on the international market. So far Riyadh shows little sign of laying foundations for the tough economic decisions it is likely to face next year. [redacted]

#### Implications for the United States

Saudi Arabia will remain a key US ally in the Middle East, but the "special relationship" probably will weaken further in 1986 as oil prices continue to move downward and Saudi Arabia expands its search for security assistance outside the United States. With less financial clout and growing domestic problems, Riyadh is unlikely to fulfill US expectations that it actively support US regional initiatives. Nonetheless, as crises flare up in the region—sensational terrorist incidents or an escalation in the Iran-Iraq war, for example—Riyadh is likely to turn to the United States for discreet assurance that security assistance would be forthcoming if needed. [redacted]

25X6

25X6  
25X6

25X1

25X6  
25X6

25X1

25X1

25X1

25X1

25X1



Secret

Kuwait in 1986:  
Circling the Wagons

25X1

Terrorist incidents, economic malaise, and the election of a reform-minded National Assembly caused the usually outspoken Kuwaiti Government to lower its political and diplomatic profile in 1985. Kuwait came under pressure from Shia extremists determined to obtain the release of imprisoned Dawa Party members, Syrians angry at the possible loss of foreign aid payments, and local politicians intent on forcing the resignation of key government figures. The government reacted by trying to accommodate its domestic critics with promises of new social programs while it increased efforts to round up potential subversives. The economic recession and threats to Kuwaiti security are unlikely to ease in 1986, and the ruling Sabah family may be forced to shift political power among family members. Relations with the United States will improve although the government will try to maintain balanced relations with both superpowers.

1985 in Kuwait

Economics and terrorism captured Kuwait's attention this year. The government came under particularly heavy domestic fire for its mishandling of the economy. Much of the criticism emanated from disgruntled National Assembly leaders who were losers in the crash of the unofficial stock market in 1982 and were determined to "get even" with the government. In February voters elected several staunch critics of the ruling family to the 50-man National Assembly. The new assembly charged the government with corruption and favoritism in debt settlements related to the stock market crash, forced the resignation of the Justice Minister—a Sabah family member—for using his position to cut his market losses,

The assembly also voted to cut aid to Syria, Jordan, and the PLO, charging that the money was not reaching the Palestinian people.

Kuwait: Basic Data	
Population	1.7 million; 40 percent (680,000) native
Government	Monarchy ruled by Al Sabah family, with an elected 50-man National Assembly
Head of state	Amir Jabir al-Ahmad al-Jabir Al Sabah
Religion of native population	70 percent Sunni Muslim 30 percent Shia Muslim
Literacy rate	65 percent
Student share of population	30 percent
Oil production	1 million b/d in 1985
Official foreign assets	\$73.2 billion at yearend 1985
Gross domestic product	\$22.4 billion in 1984
Size of armed forces	15,600
National police force	8,000

25X1

25X1

25X6

25X6

25X1

Secret

*Amir's car following bombing*

25X1

Kuwait's economy continued to suffer the effects of the Suq al-Manakh crash, the sharp drop in oil revenues, and disruptions caused by the Iran-Iraq war. Oil revenues—which account for 80 percent of export earnings—fell to half their 1979 level. The war drastically cut shipping and reexport earnings that had pumped \$900 million annually into the local economy. Meanwhile, Kuwaiti officials estimated that losses sustained in the 1982 crash may reach as high as \$15 billion, triple their earlier estimates. The government responded to National Assembly charges that it promoted wasteful consumption by doubling fuel prices, abandoning free school meals, and assessing fees for some health services. It also proposed a cut in the salaries of government workers and a 15-percent reduction in development spending. These measures failed to satisfy government critics, however, and popular frustration over the government's inability to resolve the lingering stock market crisis grew. [redacted]

**Terrorism.** Public criticism of the ruling family was stilled temporarily in May when a terrorist drove a car laden with explosives into the Amir's motorcade, nearly killing him. Islamic Jihad took credit for the attack, which it said was an attempt to win the release of 17 Dawa prisoners convicted for the bombings of the American and French Embassies and Kuwaiti installations in 1983. One month later terrorist bombs

exploded at two seaside cafes, killing 10 people. Kuwaiti security officials increased security precautions [redacted]

25X1

Kuwaitis also worried that the war would spill over into their country, and the government continued its efforts to improve air and coastal defenses. Alarmed by Iranian threats to retaliate for allowing Iraq's military to use Kuwaiti territory, the Kuwaiti Army fortified Bubiyan Island. The SA-8 surface-to-air missile system purchased from the USSR in 1982 became operational, with the assistance of Soviet advisers, thereby improving air defense coverage near Kuwait City. [redacted]

25X1

#### **The Year Ahead**

The ruling Sabah family faces another difficult year. Iranian-backed Shia extremists intent on winning the release of the Dawa prisoners probably will attempt further terrorist operations against Kuwaiti leaders and facilities in 1986. We believe that the Kuwaiti Government will stand by its decision not to release the prisoners, but it will not execute the three under sentence of death. [redacted]

25X1

25X1

Secret

Secret

25X1

Kuwait's recession will deepen in 1986, but its \$70 billion in foreign assets, investment income, and small population will allow the government to overcome its problems. Oil revenues will probably decline further, dragging down government spending. The outlook for Kuwait's other revenue sources—industry, finance, and trade—is no brighter.

If bankruptcies continue, the business community's disgruntlement will grow, and the National Assembly probably will intensify its criticism of the government's performance. Assembly leaders will renew their call for an investigation into the Kuwait Petroleum Company's purchase of the US-based Santa Fe Corporation. The Sabahs will attempt to avoid a direct confrontation with the National Assembly, and Embassy sources report that the government will use pork-barrel politics—more

money for housing and pet projects of local political leaders—to win supporters in the new session.

Nonetheless, the Amir will be forced to make some tough and unpleasant political decisions if the assembly decides to carry out its threatened investigations of government corruption. He is unlikely to close down the assembly indefinitely as he did in 1976, but he may call for new elections,

25X1

25X1

25X1

25X1

25X1

Secret

Secret

[redacted]

[redacted] Embassy sources also report that Ali al-Khalifa will resign if the National assembly presses its queries into his activities as Oil and Finance Minister. The Amir may accede to assembly and family pressure to remove Sa'd as Prime Minister, but we believe it unlikely that he would also strip him of his position as Crown Prince. [redacted]

Kuwait will continue to upgrade its air defense systems in 1986. The Air Force will receive additional Mirage fighter aircraft, and Kuwait may decide to purchase advanced Soviet weapon systems. Despite these improvements, Kuwait will remain unable to defend itself against an Iranian military attack. It will draw closer to its Gulf Cooperation Council allies, particularly Saudi Arabia, for its defense, and will continue to participate in GCC air and naval exercises and the Council's Rapid Deployment Force. [redacted]

#### Key Uncertainties

Several developments would raise the political risks for the Sabahs:

- If the Amir were killed in a terrorist attack, Kuwaitis would rally around the new Amir, Sa'd al-Abdallah. Friction between him and the Amir's ambitious younger brother, Foreign Minister Sabah al-Ahmad, who would become Prime Minister and chief policymaker, could complicate the transition of power.
- Local support for antiregime factions could increase as perceived threats to the economic well-being of disgruntled Shias and Palestinians grow. [redacted]

[redacted]

[redacted] Kuwaiti security officials believe that native Shias in growing numbers are funding dissident groups and helping them plan operations. Similarly, Syria and radical Palestinian factions angry over aid cuts or stringent security measures could draw on the large Palestinian—some 400,000 strong—and Arab expatriate communities for support.

- Kuwait could not defend itself against Iranian attacks on vital desalination plants or oil facilities and would need to call on its GCC allies and the superpowers for help. [redacted]

#### Implications for the United States

Relations between the United States and Kuwait improved steadily in 1985. The US Ambassador notes that senior officials avoided strident criticism of the United States following the Israeli raid on PLO headquarters in Tunis and the US capture of the Achille Lauro hijackers in October. The Kuwaitis also agreed to the first visit of a US Navy ship to Kuwait in six years. The Embassy credits this warming trend to Kuwait's concerns about the Iran-Iraq war and terrorism. [redacted]

We believe this trend will continue in 1986. The Kuwaitis will value the presence of the United States in the Gulf, and their fear of Iran will keep them engaged in a dialogue with Washington. Nonetheless, the Kuwaitis will continue to voice their differences with US policy, particularly on Arab-Israeli issues. They will urge Washington to recognize the PLO and argue for a Soviet role in the peace process and for improved relations between the Gulf states and Moscow. [redacted]

We believe that Americans in Kuwait face high risk from terrorist attacks and that public diatribes and calls to arms against the United States by local politicians and the media increase that risk. Iranian-backed Shia extremists will continue to target both Kuwaiti and US facilities to press the government to release the Dawa prisoners and end its support for Iraq. There is also the danger that other aggrieved individuals or groups—Palestinian, Syrian, or even Kuwaiti—will strike out against government or US interests. [redacted]

[redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret



Secret

**Bahrain in 1986:  
Facing an Uncertain Future**

25X1

The Gulf-wide economic recession and the growing threat from Iranian-backed Shia extremists dominated Bahraini thinking in 1985. Popular discontent rose significantly, with Bahrainis complaining about declining personal income, the lack of political and economic opportunities, and

Bahraini officials, for their part, sought reassurances of support from their Gulf allies and the West in the event of an Iranian attack but worried that their ties to the United States might isolate them from their Gulf allies. The Israeli raid on the PLO headquarters in Tunis and the US capture of the Palestinian hijackers of the Achille Lauro in October prompted Bahrain's leaders to rally in uncharacteristic support of Yasir Arafat and the PLO. They also hinted that Bahrain was considering establishing diplomatic relations with Moscow.

During the coming year Bahraini officials will continue to worry primarily about the threat to their security from Tehran and from the growing number of local Shia youths being recruited by Iran for antiregime activities. They will remain dependent on the United States for protection against Iranian aggression, but they will be more sensitive about the potential liabilities of their close relationship with Washington. They will be concerned that Bahrain will become the odd man out among the Gulf Arabs in clinging to a relationship that poses serious risks for them.

**Looking Back to 1985**

Economic problems became increasingly worrisome for Bahraini leaders during the past year. The Gulf-wide economic recession bit deeply into government revenues, reducing the regime's ability to dispense economic favors, and business activity declined significantly. Oil earnings—which account for 70 percent of government revenues—continued to

---

***Bahrain: Basic Data***

<i>Population</i>	417,000; 65 percent (265,000) native	
<i>Government</i>	Traditional monarchy ruled by the Al Khalifa family	25X1
<i>Head of state</i>	Amir Isa bin Sulman Al Khalifa	
<i>Religion of native population</i>	70 percent Shia Muslim 30 percent Sunni Muslim	
<i>Literacy rate</i>	75 percent	
<i>Student share of population</i>	25 percent	25X1
<i>Oil production</i>	40,000 b/d in 1985	
<i>Official foreign assets</i>	\$1.6 billion yearend 1985	
<i>Gross domestic product</i>	\$4.8 billion in 1983	
<i>Size of armed forces</i>	2,800	25X1
<i>National police force</i>	4,000	25X1

25X1

Secret

decline, and foreign aid receipts, mostly from Saudi Arabia, fell. Foreign exchange reserves, which have fallen by almost \$350 million since 1981, are now down to \$1.6 billion and are sufficient to cover nearly six months of imports. [ ]

Modest austerity measures undertaken by Manama failed to halt growth of the budget and current account deficits. The government announced it was cutting the budgets of all government ministries by 5 percent. It also reduced subsidies, restricted imports, and raised customs tariffs and fees for public services. New development projects were postponed, and payments on existing ones stretched out. The government stopped short, however, of imposing new taxes because of growing concern about public discontent. [ ]

Economic woes have stimulated an increased level of popular disenchantment with the regime. For the first time, wealthy Sunni merchants [ ]

[ ] complained about the diversion of scarce financial resources from needed social projects to military purchases. [ ]

[ ] the number of Bahrainis recruited by Iranian-sponsored extremist groups grew in 1985 and [ ] prominent Shia families were funding them. [ ] these groups—the Islamic Front for the Liberation of Bahrain (IFLB), which was responsible for a coup attempt in 1981, and the Islamic Call Party—[ ]

[ ] receive financial assistance and logistic support from Tehran and train in Iran, Syria, and Lebanon. [ ]

In addition to internal security threats, Bahraini officials were deeply concerned about the risks posed by the Iran-Iraq war. Manama joined in military

exercises sponsored by the Gulf Cooperation Council (GCC) and in October sent a small infantry unit to Saudi Arabia as part of the organization's Rapid Deployment Force. It also began to upgrade its air defense capabilities by agreeing to purchase F-5 fighters, its first fixed-wing combat aircraft, and to increase the firepower and mobility of its Army by purchasing US M-60 tanks. [ ]

#### **Bahrain in 1986**

The coming year is likely to be another difficult one for Bahrain's economy. Further oil price declines will severely strain Bahrain's resources and raise serious political problems for the ruling Al Khalifa family. The government traditionally has kept potential opposition elements in line with generous social programs and promises of full employment as well as with its relatively effective security services. A further drop in oil prices accompanied by declines in local industrial activity will make it difficult for the government to continue to provide economic benefits to Bahrainis. The government may be forced to borrow on the international market, raise taxes, limit a wider range of subsidies, and cut the government payroll. None of these options are palatable for Bahrain, which has a small tax base and fears that taxing industries and foreign companies will dampen investment incentives. [ ]

The economic slowdown will worsen Bahrain's unemployment problems. The US Embassy reports that unemployment and underemployment have already risen to worrisome levels. The government announced last summer it was cutting the number of foreign workers by 15 percent and creating a manpower committee to promote employment opportunities for native Bahrainis. These policies will have little impact, however, as long as the country's fledgling industries continue to depend on expatriate labor and the government insists on excluding Shias from sensitive positions. Bahrainis will also lack the training to step into technical management positions and will continue to view unskilled work as demeaning. [ ]

Bahrain's economic woes will add to political and social grievances felt by the large Shia community—more than 70 percent of the population. The

25X1

25X1

25X1

25X1  
25X1

25X1

25X1

25X1

25X1

25X1  
25X125X1  
25X1

25X1

25X1

25X1

Secret

Secret

government will continue to bar Shias from so-called sensitive posts in the government, military, and security services, and it will urge private industry to do the same. Discrimination in employment—coupled with lower salaries and denial of opportunities for advancement and training—will breed resentment against the government among the large segment of the Shia community that has a stake in the country's stability. Many Shias are still smarting from the government's closure in late 1984 of their main cultural and religious center—the Islamic Enlightenment Society—and the stiff sentences handed out to its leaders this year. Most Bahraini Shias probably did not condone the clandestine activities that some IES leaders were involved in, but they resent the heavyhanded crackdown by security authorities. [ ]

Manama will remain at risk from Iranian-sponsored Shia terrorists. We believe the Islamic Call Party poses the greater threat to the regime over the long term because it is centered in Bahrain and led by a popular Bahraini cleric. The IFLB also will plan operations and try to infiltrate loyalists into the country, but its capabilities could be hampered by its rivalries with the Call group. Both factions will focus their efforts on the ruling family and key installations, and we believe they will also target US personnel and facilities. [ ]

Bahrain's defense capabilities will not change significantly in 1986. The country will remain defenseless against an external attack and dependent on the GCC—and particularly the Saudi—defense umbrella for protection. The presence of the US Navy will serve as a deterrent to conventional Iranian attacks. Manpower shortages will be aggravated by the delivery of new equipment, particularly the F-5s, and by the rotation of Bahrain's small contingent to the GCC's Rapid Deployment Force in Saudi Arabia. [ ]

#### Key Uncertainties

The Khalifa family's hold on power is not yet threatened, but we believe that serious and longstanding sectarian tensions will continue to plague the Sunni-dominated government and provide fertile ground for dissidence and subversion. Sources

of varying reliability have told the US Embassy that the Shia community's celebrations of Ashura, the holiday commemorating the martyrdom of the Prophet's grandson at the hands of the Sunnis, have grown in intensity since the Iranian revolution. This year overt antiregime demonstrations occurred in two Shia villages. We believe that Iranian-backed Shia clerics could use religious fervor to rally native Shias angry at the regime during the holiday in 1986. Bahraini security authorities could control small demonstrations, [ ]

25X1  
25X1  
25X1

The decision to purchase expensive new military equipment and increase the size of the military could trigger additional resentment against the regime. It may provide a focus for disgruntled merchants, government bureaucrats, and workers, in part because military expenditures will increase at the same time that social programs face budget cutbacks. Moreover, the lack of eligible Sunnis will lead to the recruitment of more foreigners to serve in the military and security services. [ ]

25X1

25X1

#### Implications for the United States

Bahraini leaders want the protection that the US military presence in Bahrain gives them, but they believe that events such as those in October put them and their relationship with the United States at serious risk. They were bitter about the apparent US support for Israel following the attack on the PLO in Tunis and the US capture of the Palestinian hijackers of the Achille Lauro. They accused the United States of endangering moderate Arabs, and the Foreign Minister suggested that, if the United States could not influence events in the region, perhaps the USSR could. Bahraini leaders reminded US officials that they would not act alone in further discussions on pre-positioning or contingency planning with the United States, and that Bahrain's allies in the GCC also must agree to increased military cooperation before Manama would consider new proposals. [ ]

25X1

25X1

25X1

Bahraini leaders will probably continue to hint that the smaller Gulf states need to balance their relations

Secret

Secret



*Amir Isa meets with President Reagan during his 1983 visit to Washington.*

25X1

with the superpowers, and Manama may establish formal ties to Moscow in 1986. Diplomatic recognition of the Soviets, however, would not loosen relations with the United States. Manama will continue to look to Washington for assurances of support against an Iranian threat and to Riyadh to fund military programs.

25X1

25X1

Secret

Secret

**Qatar in 1986: Regional  
Recluse Slumbers On**

25X1

Qatar was virtually untouched by the two major threats—recession and terrorism—that preoccupied its Gulf neighbors during 1985. Oil revenues continued to fall, but Qatar’s relatively large financial reserves and small population coupled with prudent budget cuts enabled it to absorb oil price declines with minimal difficulty. The generally low-key Qataris roused themselves briefly in October to rally around moderate Arabs and the PLO following the Israeli attack on PLO headquarters in Tunis and the US capture of the Palestinian terrorists who had seized the Achille Lauro.

Doha is unlikely to change any basic policies or attitudes in 1986. It will try to remain invisible internationally while it accommodates potential sources of domestic unhappiness. Concern about the Iran-Iraq war will keep Qatar in close contact with its Gulf Cooperation Council (GCC) allies, but Doha is unlikely to expand relations with the United States or recognize the USSR during the coming year.

**The Year That Was in Doha**

Qatar’s most serious problems in 1985 involved economic issues. Oil revenues, which had declined by 35 percent since 1980, continued to slide, prompting Doha to cut the current budget by an equivalent proportion. Qatari officials hoped to absorb the revenue shortfall by delaying payments and work on government projects, slashing imports, and cutting the government payroll, but a \$2 billion budget deficit is forecast for fiscal year 1985/86.

Doha has relatively large international reserves—\$10 billion—that can serve as a cushion against further declines in oil revenues. It also has the smallest population and the highest per capita income in the Gulf. As a result, it did not have to introduce drastic government austerity measures. Qataris continued to receive all the social welfare programs promised by a generous  leadership, including free health and educational benefits and guaranteed employment for all native college graduates.

**Qatar: Basic Data**

Population	300,000; 23 percent (70,000) native
Government	Monarchy ruled by Al Thani family, with an appointed advisory council
Head of state	Amir Khalifa bin Hamad Al Thani
Religion of native population	85 percent Sunni Muslim 15 percent Shia Muslim
Literacy rate	50 percent
Student share of population	25 percent
Oil production	300,000 b/d in 1985
Official foreign assets	\$10.8 billion yearend 1985
Gross national product	\$7.8 billion
Size of armed forces	5,000
National police force	2,500

25X1

25X1

25X1

25X1

25X1

25X1

Secret

[redacted] The Embassy reports that the costs for two palaces being built by Amir Khalifa now amount to \$1 billion—nearly one-quarter of Qatar's annual oil income. [redacted]

Qatar's leaders were shaken by the assassination attempt in May on the Amir of Kuwait and instituted tighter security measures. These were aimed for the most part at the country's expatriate population—three of every four residents are foreigners. They also worried about Iran's threats to Gulf shipping. Qatar's air and naval forces—Mirage F-1 fighter aircraft and missile boats—conducted limited operations to aid ships damaged during Iranian attacks. The Navy participated in a GCC-sponsored naval exercise in Oman, and the Army sent a small unit to Saudi Arabia as part of the GCC's Rapid Deployment Force. [redacted]

Doha may have begun reassessing its lack of ties to Moscow this year. A prominent Qatari journalist visited the USSR in October—the first trip of its kind by a Qatari—and local sources have told the Embassy that the Gulf states need to balance their relations with the superpowers. [redacted]

#### Looking Toward 1986

Qatari businessmen expect the economic picture to improve over the next year, according to the US Embassy in Doha. They believe that Qatar's liquidity squeeze may have helped streamline business operations, thus serving as a blessing in disguise. In addition, the planned development of the North Field gas project—the world's largest single reservoir of natural gas—is scheduled to begin by the end of 1985, and the business community expects this project to generate increased economic activity. [redacted]

Doha may announce some Cabinet changes in 1986, but they will be cosmetic ones. The Embassy has reported rumors that a reshuffle is imminent following the death in August of the Amir's younger brother and rival, Shaykh Suhaym. Suhaym's death ended a serious rift in ruling family circles, but some family members apparently are still disgruntled by Amir Khalifa's ill treatment of his brother. [redacted]

#### Key Uncertainties

Religious discontent could become a significant factor in 1986 if young, educated Qataris who are unhappy with the Amir's development policies ally themselves with Qatar's older religious purists. The Embassy claims that Qatar's pampered youth—more than half the population is in the 18 to 30 age bracket—are potentially the most troublesome group in society, but it suggests they are too busy reaping the benefits of the welfare state to pose a threat to the regime. [redacted]

As long as the Amir continues his cautious policy of balancing modernization with religious conservatism, we believe he should be able to avoid serious challenges from younger Qataris. If oil revenues plummet and economic conditions worsen dramatically, however, or the Amir fails to maintain acceptable religious standards, ascetic Islamic revivalist groups will flourish and become centers of political opposition. In our judgment, their antiseccular and anti-Western attitudes would pose a threat to US interests in Qatar. [redacted]

#### Implications for the United States

This fall's events—the Israeli raid on the PLO in Tunis and the US capture of the Achille Lauro hijackers—roused intense anger among the usually lethargic Qataris. Local media described the United States as an enemy and rallied with uncharacteristic fervor around Yasir Arafat and the PLO. Qatari leaders deplored the US action, claiming it deepened distrust of the United States among moderate Arabs. Officials in Doha will probably continue to probe for signs of US willingness to aid them if an attack by Iran is imminent, but they are not eager to discuss pre-positioning or contingency planning with the United States. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

**Secret**

We think it unlikely that Qatar will follow Oman and the UAE's lead and establish diplomatic relations with Moscow. The US Embassy claims Doha's leaders are uneasy about their neighbors' decision. Qatar would follow suit if the Saudis established diplomatic relations with the USSR, but the decision would probably have no impact on relations with Washington.

25X1

25X1

**Secret**





Secret

**The United Arab Emirates in 1986:  
Thinking About Security**

25X1

The seven shaykhdoms that comprise the United Arab Emirates spent most of 1985 bickering among themselves over budgets and borders, while the UAE as a whole engaged in running disputes with its Gulf Cooperation Council (GCC) allies over security issues. Declining oil revenues and disagreements over responsibility for funding the federal budget threatened to plunge the UAE into a major fiscal crisis. The country's economic problems were almost overshadowed, however, by political squabbling between the leaders of Abu Dhabi and Dubai (Dubayy)—the two largest and most powerful members of the federation. We believe that UAE leaders will make little progress in the coming year in resolving the political stalemate or making the tough economic decisions necessary to stabilize the federal government. Faced with the prospect of Iranian subversion, the UAE will seek safety by honoring its commitments to the GCC while hoping Tehran does not order into action Iranian dissidents in the emirates.

The UAE established diplomatic ties to Moscow in November, but the move is unlikely to affect relations with Washington. President Zayid is a staunch and emotional supporter of Arab and Palestinian causes and will remain unhappy with Washington because of its support for Israel. Still, he values US ties as a counter to Iran and may allow the United States to pre-position nonlethal military equipment in one of the shaykhdoms.

**Looking Back at 1985**

Leadership problems rose significantly in the UAE during 1985. President Zayid, the ruler of Abu Dhabi, remained the symbol of the federation, and leaders in the smaller, poorer shaykhdoms continued to look to him to resolve disputes among the emirates. Embassy reporting this year suggested, however, that Zayid's fellow rulers as well as commoners were disturbed by the drift in leadership caused by the President's long and frequent absences from the country. They were apparently even more frustrated by the bickering and rivalry for power

**United Arab Emirates: Basic Data**

Population	1.3 million; 15 percent (200,000) native
Government	Federation of seven tribal shaykhdoms headed by a president selected by the shaykhs, with an appointed 40-member National Consultative Assembly
Head of state	Shaykh Zayid bin Sultan Al Nuhayyan
Religion of native population	90 percent Sunni Muslim 10 percent Shia Muslim
Literacy rate	65 percent
Student share of population	25 percent
Oil production	1.1 million b/d in 1985
Official foreign assets	\$37.5 billion yearend 1985 (projected)
Gross domestic product	\$27.5 billion in 1983
Size of armed forces	44,000
National police force	9,800

25X1

25X1

25X1

25X6

Secret

between Zayid's son, Crown Prince Khalifa, and Dubai's de facto ruler, Shaykh Muhammad bin Rashid. [REDACTED]

A decline in oil revenues caused major fiscal difficulties for the federal government. The 1985 budget—which was not approved until late October—cut expenditures to \$4.5 billion, 3 percent below 1984 levels. Foreign aid was trimmed, current projects were stretched out, and new ones were eliminated. Defense spending, however, remained at nearly 50 percent of the federal budget, despite the objections of the smaller emirates. The UAE planned to cover its projected budget shortfall—estimated to be \$1 billion—through domestic commercial borrowing and by drawing down its large international reserves, estimated at \$37 billion. [REDACTED]

Although UAE citizens—only 15 percent of the population—were virtually unaffected by the cutbacks, federation leaders became increasingly worried that the recession would affect them as well. Capital flight continued unabated, draining local liquidity, raising interest rates, and putting additional pressure on the already beleaguered banking system. Businessmen called for an increase in the UAE's OPEC quota and demanded the immediate settlement of government debts to companies and contractors to create liquidity. Government officials complained that the chronic lateness of the budget was hampering their efforts to plan for more than the short term. The government paid little attention to these requests, however, and continued to delay its payments. [REDACTED]

The discovery of Iranian subversive activity in the emirates alarmed UAE officials. [REDACTED]

[REDACTED] members of Iran's Revolutionary Guard were caught smuggling arms into Sharjah this summer [REDACTED] the Iranians planned to attack UAE officials and installations as well as Western embassies. The UAE tightened hiring procedures for anyone of Iranian origin and began nightly patrols of the coastline. [REDACTED]

UAE leaders apparently were less concerned about the possibility of an Iranian military attack, but they continued efforts to improve their air defenses. Abu Dhabi signed an agreement to purchase a second squadron of Mirage 2000s from France and began preparing for the delivery in 1986 of I-HAWK surface-to-air missiles from the United States. UAE units participated in several GCC-sponsored air and naval exercises and contributed a contingent to the GCC Rapid Deployment Force based in Saudi Arabia. Federal defense efforts, however, were hampered by overdependence on expatriate personnel and lack of cooperation between the emirates. Dubai still has not integrated its military into the federation's armed forces and purchases hardware independently of the federal government. [REDACTED]

#### Looking Ahead to 1986

We expect that political and economic pressures will continue and may even mount in the coming year. The 70-year-old Zayid probably will be reelected to his fourth five-year term as President, but he probably will grow weary of the incessant squabbling among the emirates. He will continue his frequent and prolonged trips outside the country, stopping in Abu Dhabi only long enough to meddle in the decisions made by his heir, Crown Prince Khalifa. Khalifa will take advantage of his father's absence to strengthen his position in Abu Dhabi and to gain recognition from the other emirates and Gulf rulers as the successor to his father as head of the federation. [REDACTED]

[REDACTED] US Embassy sources report that the Crown Prince is making powerful enemies. His determination to prevent corruption in military procurement last year resulted in the jailing of some prominent UAE middlemen and forced the renegotiation of arms sales contracts. His rejection of local demands for additional military expenditures, bank bailouts, and expensive infrastructure projects will raise further objections to him in Abu Dhabi and the UAE as a whole. [REDACTED]

Khalifa's most prominent opponent in the coming year will be Shaykh Muhammad, the third and most capable son of Dubai's ailing ruler, Shaykh Rashid. [REDACTED]

25X1

25X1

25X1

25X1

25X6

25X6

25X6

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

President Zayid (center) and Crown Prince Khalifa (left) at recent National Day celebration. [redacted]



25X1

The ambitious Muhammad has been expanding his influence in Dubai at the expense of his older brothers and will probably make a bid for federal leadership in the coming year, especially if Zayid decides to step aside. Muhammad is Minister of Defense in the federal government, but [redacted] Khalifa, who uses his post as deputy supreme commander of the UAE armed forces to control military decision making for the federation. [redacted]

[redacted] Rivalries for political power and economic bounty that are more tribal than national will absorb the leaders' limited attention spans. We believe, however, that powerful forces—fear of Iran, as well as dependence on the federal government for money, employment opportunities for natives, and even for resolution of border disputes—will keep the federation alive. [redacted]

The UAE will muddle through the economic problems of the coming year much as it did in 1985. Oil revenues will probably decline further, leading to a further reduction in economic activity. Emirate leaders will haggle over difficult budget cutbacks and

delay making decisions as long as possible. They will try to increase oil exports through various discounting schemes and probably pursue interests in downstream oil operations to increase their market share in petroleum products. [redacted]

UAE leaders will continue to urge their GCC allies to moderate criticism of Iran, but they will also be much warier of Tehran's intentions. They will no longer assume they have a special relationship with Tehran or that Iranian "assets" in the UAE—their extensive trade contacts, civil air arrangements, or jobs provided to the 75,000 Iranians who live there—will constrain Iranian support for military or terrorist attacks. [redacted]

Despite the heightened Iranian threat and efforts to improve military effectiveness, UAE air and naval defenses will remain inadequate throughout 1986. The UAE will continue to look to the GCC for help in defense matters. It is unlikely to solve its expatriate manpower problems, and the smaller emirates will continue to build up independent military forces, further complicating defense issues for the federal government. [redacted]

25X1  
25X625X1  
25X625X1  
25X6

25X1

25X1

Secret

Secret

**Key Uncertainties**

The Embassy believes—and we concur—that the UAE’s greatest vulnerability lies in public discontent over shrinking economic benefits. A decision to reduce subsidies to citizens or the poorer emirates because of declining oil revenues would cost Abu Dhabi considerable political support. We believe that the federal government may have to make these kinds of decisions if oil prices plummet dramatically next year. It will have to seek additional ways to limit spending and raise new revenue. It probably will take out additional commercial loans, seek foreign export credits, and draw down its assets. Government leaders would also consider politically unpopular cutbacks in social welfare programs and in the salaries of government employees, many of whom are expatriates. Abu Dhabi could also press the smaller emirates to make additional contributions to the federal budget or to pay for local projects now funded by the federal budget. [redacted]

Other developments would stir up new uncertainties. The founding fathers have stepped back from day-to-day governing because of weariness or illness, but the reins of power have not been passed to their sons. Until they are, Crown Prince Khalifa and Shaykh Muhammad will continue to compete for attention, [redacted]

[redacted] If Zayid meddled in the politics of Dubai’s succession [redacted]  
[redacted]  
[redacted] tensions would increase significantly between the two emirates. [redacted]

**Implications for the United States**

Relations between the United States and the UAE will remain cordial in the coming year. Changes in the emirates or the federal government would have little impact on US interests. Most UAE leaders are pro-West, and UAE natives seem to feel little animosity toward the United States despite frequent media attacks on US regional policy. The exception is the Arab-Israeli issue. President Zayid is a passionate supporter of the Palestinian cause and deeply resents what he perceives to be unrestrained US support for Israel. UAE leaders condemned the Israeli raid on the

PLO headquarters in Tunis and worried that support for the United States did not offer friendly Arab states like Tunisia, Egypt, or the UAE protection from Israeli attack. [redacted]

The UAE’s growing preoccupation with the Iran-Iraq war and the prospect of Iranian-backed subversion will probably move the federation to improve military and security cooperation with the United States. Dubai agreed in 1985 to let US warships use its drydock facilities, and Ras al-Khaymah is negotiating an agreement that would permit the United States to pre-position nonlethal military supplies. The agreement must be ratified by President Zayid and is opposed by Dubai, but UAE leaders in the coming year will probably place a higher value on having a visible US military presence nearby than they did previously. We believe that US personnel and facilities, particularly those in Abu Dhabi and Dubai, will be at risk from Iranian terrorist attacks. [redacted]

Abu Dhabi’s establishment of diplomatic relations with Moscow in November will probably have little effect on ties to Washington. UAE leaders probably view relations with the Soviets as a way of protecting themselves from Iranian or Iraqi threats to their security. [redacted]

25X1

25X1

25X1

25X1

25X1

25X6

25X6

25X6

25X6

25X6

25X1

Secret

Secret

Oman in 1986:  
Asserting Itself

25X1

A bastion of stability since the end of the Dhofar rebellion 10 years ago, Oman now seeks to play a more active role in Arab politics. Lavish National Day celebrations and Muscat's acting as host to the Gulf Cooperation Council (GCC) summit meeting in 1985 clearly demonstrated Oman's desire to highlight its emergence from self-imposed isolation. Muscat demonstrated new diplomatic activism by asserting its sovereignty during the access agreement review with the United States in May 1985 and by establishing relations with the USSR. Oman's growing support for Jordanian King Hussein and Egyptian President Mubarak reflects Sultan Qaboos's resolve to lead Oman closer to the moderate Arab camp.

Oman in 1985

Muscat's independent foreign policy was the dominant theme in 1985. The trend toward greater assertiveness was apparent in the sometimes contentious negotiations with Washington during the access agreement review that began in May. In September, Muscat announced the establishment of diplomatic relations with the Soviet Union. The timing of the announcement, just before meetings between the Omani Minister of State for Foreign Affairs and senior US officials, strongly suggested that Oman was signaling its displeasure with some aspects of the US-Omani relationship. Sultan Qaboos's much publicized meetings with King Hussein and President Mubarak were evidence of Oman's more active role in Arab politics.

Border problems with Saudi Arabia flared on several occasions during the year and greatly concerned the Omanis. Although the Omani-Saudi relationship is otherwise cordial, Muscat believes Riyadh is pushing territorial claims near areas that may contain petroleum deposits, and it has reacted strongly to Saudi incursions into border areas. Saudi Foreign Minister Sa'ud al-Faysal visited Muscat in March to

**Oman: Basic Data**

Population	1.2 million in July 1985
Government	Absolute monarchy
Head of state	Sultan Qaboos bin Said Al Bu Said
Religion of population	50 percent Ibadhi Muslim 35 percent Sunni Muslim 15 percent Shia Muslim
Literacy rate	20 percent
Student share of population	20 percent
Oil production	500,000 b/d in 1985
Official foreign assets	\$850 million in May 1985
Gross national product	\$7.3 billion in 1984
Size of armed forces	20,000
National police force	2,400

25X1

25X1

25X1

**Secret**

smooth over the disagreement, but little if any progress has been made in delineating the border.

[ ]

Muscat continued efforts to improve its defenses and to avoid becoming entangled in the Iran-Iraq war. The Iranian Navy began seizing cargo vessels entering the Persian Gulf in late August in response to Iraqi raids on Khark Island. Some of the ship seizures have taken place inside Omani territorial waters, and Iranian naval vessels have challenged Omani warships. Muscat acted to reduce the chances of a naval clash with Iran by issuing new rules of engagement, and its Navy has not interfered with Iranian operations in Omani waters. Oman was a reluctant participant in GCC military cooperation efforts, due in part to continued border problems with Saudi Arabia. The Omanis sent a small contingent to the Rapid Deployment Force now based in Saudi Arabia, however, and participated in a number of GCC-sponsored air and naval exercises during 1985.

[ ]

Oman remained dependent on the United Kingdom for military equipment and seconded personnel. Muscat agreed to purchase the air defense version of the Tornado, a decision that makes purchase of US fighter aircraft unlikely because of financial and manpower constraints. Although Muscat continued making progress toward the Omanization of the military, British military personnel continue to hold key positions and serve as fighter pilots, maintenance technicians, and staff officers. Omani officers showed signs of increasing resentment of the continuing British presence, and there were several confrontations between Omani and British personnel.

[ ]

Muscat pushed oil production to 500,000 barrels per day, boosting oil revenues and helping Oman avoid the effects of the regional recession. Qaboos used oil revenues to pursue aggressively his economic diversification program, emphasizing the development of light industry, minerals, fisheries, and agriculture, as well as extending basic infrastructure to remote areas. Oman is not a member of OPEC, and its oil-producing OPEC neighbors are increasingly irritated by Oman's reluctance to rein in its oil production.

[ ]

#### **Oman in 1986**

Few foreign policy changes seem in the offing for 1986. Muscat will maintain its more active foreign policy and will continue to lobby within the GCC for the resumption of relations with Egypt. In addition, we expect that the Omanis will keep open a diplomatic channel to Iran in the hope of finding a way to end the Iran-Iraq war.

25X1

25X1

Oman will continue its close military relationship with the United Kingdom. As Omanization continues, however, the overall effectiveness of the military will decline, and we expect to see continued disputes between Omani and British officers. If the pace of Omanization slows, we believe this could become a source of political disaffection within the Omani officer corps. Oman will remain a reluctant participant in GCC military affairs and will continue to avoid a military confrontation with Iran.

25X1

There probably will be few significant domestic political developments during 1986. Shia groups make up only about 15 percent of the population and are quiescent. The once dangerous Popular Front for the Liberation of Oman (PFLO) has shrunk to only a handful of supporters active in the Dhofar and presents little danger to the regime as long as South Yemen continues to hold back support for the insurgents. Young nationalists in the government and military present a nucleus around which dissidence could crystallize, particularly over the issue of corruption, but they almost certainly will not present a serious threat to Qaboos during 1986.

25X1

25X1

The Omani economy will remain dependent on high levels of oil production. Oman's OPEC neighbors may press Muscat to restrain its output, but such efforts are likely to fail. Economic diversification may make marginal progress during 1986, most likely in the mining sector, but Muscat's financial health will still depend on the oil market.

25X1

25X1

#### **Key Uncertainties**

Although Qaboos enjoys robust health, his incapacitation would present the greatest risk to Omani political stability since he has no heir and the succession is murky. If Qaboos became seriously

25X1

**Secret**

Secret

Sultan Qaboos **Implications for the United States**

Oman is important to the United States because access to military facilities and pre-positioned stocks on Masirah Island would be critical to the successful employment of US forces in the Persian Gulf region. Muscat's establishment of relations with the USSR, although limited to the exchange of nonresident ambassadors, may indicate that Oman's willingness to grant the United States access to its facilities is waning.

25X1

25X1

25X1

impaired, we believe the Al Bu Said family ultimately would select a successor from Qaboos's relatives. Omani history is replete with examples of succession as a result of patricide or fratricide, and, if Qaboos became gravely ill, we believe the succession would be traumatic but manageable.

25X1

Events outside Oman's control could embroil it in conflict with its neighbors next year, although Oman will do all it can to remain at peace. If the hardliners return to power in Aden, it is possible that they could attempt to reinvigorate the now moribund PFLO. Given Tehran's ship seizures near the Strait of Hormuz, a clash between Omani and Iranian naval forces could drag Oman deeper into the Iran-Iraq war. Finally, border problems with Saudi Arabia have been highly contentious but have so far not led to violence.

25X1

Secret





Secret

South Yemen in 1986:  
Moderates on the Defensive

25X1

President Ali Nasir Muhammad al-Hasani and his moderate faction emerged from the Yemeni Socialist Party's (YSP) congress in October in a weakened position. The return of hardline ex-President Abd al-Fattah Ismail from exile in Moscow and his appointment to the YSP Politburo raise the possibility that Hasani's hold on power will continue to slip during 1986. Divisions within the YSP leadership, shifting political alliances, and deep-seated economic problems will ensure a turbulent political environment that could permit the Soviets to expand their influence in the coming year.

South Yemen in 1985

Political infighting among YSP leaders dominated South Yemeni politics during 1985. Ismail's return and subsequent appointment to the Politburo deepened existing splits in the party leadership.

Ismail's return as well as his rapid rehabilitation resulted from pressures by the Soviets, representatives of Communist countries in Aden, and Ethiopian leader Mengistu. Although Moscow continues to support Hasani, its lobbying effort on behalf of his rivals suggests that it may be putting Hasani on a shorter leash.

Although the outcome of the YSP congress in October indicated the growing influence of Hasani's rivals, it also demonstrated that Hasani retained some political strength.

We regard it as a significant indication of Hasani's clout that it proceeded as planned.

South Yemen: Basic Data

Population	2.2 million in July 1985	
Government	Civilian Marxist	
Head of state	President 'Ali Nasir Muhammad al-Hasani	
Religion of population	95 percent Shafi (Sunni) Muslim 5 percent Zaydi (Shia) Muslim	25X1
Literacy rate	25 percent	
Student share of population	20 percent	
Economy	Subsistence agriculture; cottage industry	25X1
Official foreign assets	\$225 million in July 1985	
Gross national product	\$1.1 billion in 1984	25X1
Size of armed forces	23,000	
National police force	10,000 (estimate)	25X1 25X1
Militia	10,000 (estimate)	25X1 25X1 25X1

Secret



*President Ali Nasir  
Muhammad al-Hasani*



*Politburo member Abd al-  
Fattah Ismail*

25X1

25X1

Despite the unsettled internal situation during 1985, Hasani maintained the moderate trend of South Yemen's foreign policy. In September, Aden and Oman agreed to exchange ambassadors, a move that strengthens relations between the two former adversaries and highlights the gradual movement toward improved ties between South Yemen and its neighbors. Relations with North Yemen are better than they have been in years, as are Aden's ties to Saudi Arabia and Western Europe. Despite occasional border clashes, President Hasani and North Yemen's President Salih appear to have a good working relationship and have acted quickly to contain incidents before they grew to dangerous proportions.

South Yemen's economy continued to face serious problems, in part because of the regional recession, and we suspect that economic factors provide strong motivation for Hasani's more moderate foreign policy. Contributions from Libya and the Gulf states were down, and the USSR and its allies failed to take up the slack. Worker remittances dropped slightly from the 1984 level of \$400 million. Declining revenues forced Aden to reschedule some of its foreign debt and to slash imports from the 1984 level of \$920 million to about \$440 million. These declines will cause some development projects to be slowed down and others to be abandoned. The 1985 budget forecast a budget deficit higher than that in 1984.

Although Hasani made economic recovery a high priority in 1984, South Yemen's economy showed little improvement. The government could not

mobilize the resources of the private sector toward national development. Meanwhile, the country's industries—refining, food processing, and fishing—continued to languish. In addition, the agricultural sector continued to suffer the effects of a severe drought.

25X1

Military developments were highlighted by sporadic border clashes with North Yemen, the most serious of which occurred in January as a result of the deployment of South Yemeni troops to areas southeast of Marib, near Sanaa's oil discovery. The USSR continued to deliver military equipment to South Yemen, including the first delivery of the SA-3 air defense missile system.

25X1

25X1

#### **South Yemen in 1986**

Power struggles among YSP leaders will remain South Yemen's major concern during 1986. As rival factions jockey for position, they are likely to squabble over Aden's poor economic performance, the rapprochement with Oman, improving ties to the West, unproductive oil exploration, and South Yemen's reliance on Moscow for security assistance.

25X1

The crucial issue during 1986 will be the political strength of President Hasani. He has strong support in the security service and party, and we believe that he has the broadest popular appeal of any South Yemeni politician. These factors are counterbalanced by the significant support his rivals enjoy in the

25X1

Secret

Secret



Politburo member and Defense  
Minister Salih Muslih Qasim  
[redacted]

military. In addition, [redacted]  
[redacted] factionalization of the YSP leadership is increasing following the October congress. Although we believe Hasani still holds a thin majority in the Politburo, the growing fluidity of political alliances will tend to increase the political influence of his rivals. [redacted]

Despite the potential for political turmoil, we believe Aden's foreign policy is unlikely to change dramatically. The Soviet Union has recently made political headway in the region by establishing diplomatic relations with Oman and the United Arab Emirates, and it will almost certainly encourage Aden to behave responsibly to facilitate Moscow's establishment of relations with other Gulf states. In addition, South Yemen's flagging economic performance has increased its need for foreign assistance. Since the most promising sources of aid are Western Europe and Saudi Arabia, it seems unlikely that Aden will jeopardize existing aid by becoming more pugnacious. North Yemen is far better armed and prepared for a military confrontation than it was in 1979 when a border war erupted between the two Yemens. We believe Aden also will be reluctant to initiate major hostilities with North Yemen either by using its own troops or by resuming support for the quiescent National Democratic Front. [redacted]

Aden's economy will be increasingly strained in 1986. Development projects are likely to be cut or stretched out, imports and government spending will be reduced, and little additional foreign aid seems likely.

**South Yemen in 1985: Key Dates**

- February** *Hasani resigns as Prime Minister during heated Central Committee meeting. Haydar Abu Bakr al-Attas assumes vacated post.*
- March** *Ex-President Abd al-Fattah Ismail's return from exile in Moscow confirmed.*
- September** *Reports of violence between pro- and anti-Hasani factions. Soviets, Ethiopian leader Mengistu, and East Germans lobbying on behalf of Ismail with YSP members.*
- October** *Expanded Politburo elected during party congress maintains balance between factions, but Abd al-Fattah Ismail's election to the body marks setback for Hasani and other moderates.*

[redacted]

As the economies of the Gulf states decline, South Yemeni expatriates will return home, causing a major drop in the country's foreign exchange. Still, Aden probably will be able to borrow enough funds to scrape through the coming year. [redacted]

**Key Uncertainties**

There is significant danger that the political alliances that preserve an uneasy peace among South Yemeni factions could break down. We would perceive the general signs of growing political instability, but we would expect little immediate warning of an acute political crisis. In addition, if Hasani's supporters come to believe that he could not protect them, they might act independently against their enemies and precipitate widespread political violence. The

Secret

**Secret**

possibility also exists that Hasani or other key leaders will be assassinated, causing a general breakdown of political order. [ ]

25X1

**Implications for the United States**

Hasani's political demise would be a setback for US interests in the region since South Yemeni leaders who oppose his pragmatic policies probably would gain increased power. The potential exists that a new leadership cadre in Aden would gradually resume subversive efforts against North Yemen and Oman and that Aden might be more receptive to Libya's efforts to resurrect the moribund Tripartite Pact.

[ ]

25X1

The consolidation of Hasani's position would advance US interests by maintaining the momentum of Aden's pragmatic foreign policy. We believe that Hasani has serious doubts about remaining under the Soviet wing, and that these doubts were reinforced by the lobbying Moscow engaged in on behalf of his rivals. If Hasani solidified his political position, we believe he could argue for restored diplomatic ties to the United States by citing the fact that both Oman and the UAE are seeking to balance their relations with the superpowers. [ ]

25X1

[ ]

25X1

**Secret**

Secret

North Yemen in 1986:  
Lean Year Ahead

25X1

President Salih continued to demonstrate his mastery of North Yemeni politics throughout 1985, and we foresee no serious challenges from domestic opponents in 1986. Salih's military regime has given North Yemen a measure of stability and a relative prosperity it has not known since the revolution in 1962, and his popularity with Yemenis continues to be buoyed by North Yemen's oil discovery in mid-1984. Despite the good news from the oilfields, Sanaa faces the challenge of keeping the economy afloat and dampening popular expectations until oil revenues start flowing.

Looking abroad, Sanaa also faces mounting political pressures from its two neighbors, Saudi Arabia and South Yemen. Saudi Arabia, North Yemen's biggest benefactor, has sharply cut back economic assistance, and we see little prospect of an upturn in Saudi aid levels in 1986. The unsettled political situation in South Yemen, where Aden's relatively moderate President has come under fire from leftist opponents, threatens trouble for North Yemen in the coming year. Routine clashes along the border can be expected, and a reprise of the South Yemeni invasion of North Yemen in 1979 could become a threat if hardliners regain power in Aden.

1985—On Balance a Good Year

In October 1985 Col. Ali Abdallah Salih completed seven years as North Yemen's President, the longest any North Yemeni leader has held office since the overthrow of the Imamate in September 1962. There were no serious challenges to his rule in 1985 from within the regime or from the shaykhs who head North Yemen's fractious tribes. In 1985 the government continued to extend its authority peacefully into tribal territories without major incident.

Further development of the oil discovery east of Marib in July 1984 by the US-based Hunt Oil Company continues to improve the prospects for a

North Yemen: Basic Data

Population	6.1 million, nearly 100 percent native Yemenis
Government	Pro-Western military regime
Head of state	President Ali Abdallah Salih
Religion	55 percent Shafi (Sunni) Muslim 45 percent Zaydi (Shia) Muslim
Literacy rate	20 percent
Student share of population	15 percent
Economy	Small agricultural economy, heavily supported by worker remittances and foreign aid
Official foreign assets	\$300 million in October 1985
Gross domestic product	\$2.5 billion in 1984
Armed forces	32,000 (estimate); substantial tribal levies can be called up as needed
Security forces	10,000 (estimate)

25X1

25X1

25X1

25X1

Secret



President Ali Abdallah Salih

major turnaround of North Yemen's economy—one of the world's poorest. By October 1985, 14 wells had been drilled in one formation, and all were productive. Results from test wells in two other formations are also promising. Hunt has begun building North Yemen's first oil refinery, a 10,000-b/d facility that will supply about half of North Yemen's domestic requirements when it begins operation in April 1986. Feasibility studies are under way for a 400-kilometer pipeline to the Red Sea that is scheduled for completion in 1988. Its initial capacity of 100,000 b/d is expandable to 400,000 b/d if warranted by further oil discoveries. [ ]

Despite the good news from the oilfields, other aspects of North Yemen's economy continued to slide. The economy faces persisting current account and budget deficits as well as an average inflation rate of 20 percent per year. Sanaa relies on foreign aid to cover the trade gap, but aid funds in 1985 were less than one-third of their 1982 levels and are not likely to rebound in the near future because of the impact of declining oil revenues on North Yemen's Persian Gulf benefactors. In addition, foreign exchange reserves have fallen below \$300 million and are now sufficient to cover only two months of imports. [ ]

North Yemen's relations with Saudi Arabia continued to deteriorate in 1985. For years Saudi Arabia has been North Yemen's biggest official aid donor, and the Saudis additionally have provided large sums in unofficial stipends to North Yemeni tribal shaykhs and to political figures—including Salih himself. The Saudis in 1985, however, failed to

hold the annual meeting of the Saudi–North Yemeni Joint Coordination Committee, which sets annual official aid levels. [ ]

[ ] The Yemeni leadership and public are unwilling to relinquish either territory or their own territorial claims. [ ]

Sanaa also was concerned about the power struggle that intensified during 1985 in Aden between the relatively moderate President Hasani and his radical opponents, and earlier in the year it had to deal with a border crisis with South Yemen. In late 1984 North Yemen began moving major troop reinforcements to the Marib area and occupied Jabal Thaniyah, a strategic high point near the juncture of the North Yemeni, South Yemeni, and Saudi borders. These movements sparked a counterdeployment of South Yemeni forces, and the resulting skirmishes in January were the most severe since 1981. This crisis was defused by a series of meetings between Presidents Salih and Hasani, but both armies maintain positions near the border. [ ]

#### Holding On in 1986

President Salih's political position appears firm. We believe his enemies in the regime, the country's religious fundamentalists, and the tribes are divided and will not be capable of broad-based action against him next year. [ ]

Salih, however, will have to grapple in 1986 with the challenges created by continuing economic problems and rising popular expectations. The government will try to tighten tax compliance, especially the payment of customs duties that comprise half of its revenues. Sanaa is also considering increased taxes and users' fees for government services. The poor administrative capabilities of North Yemen's civil service and the decentralization of tax collection, however, will limit Sanaa's ability to collect higher taxes. Larger budget cuts may be necessary but will be politically unpopular. [ ]

25X1

25X1

25X1

25X1

25X1

25X1

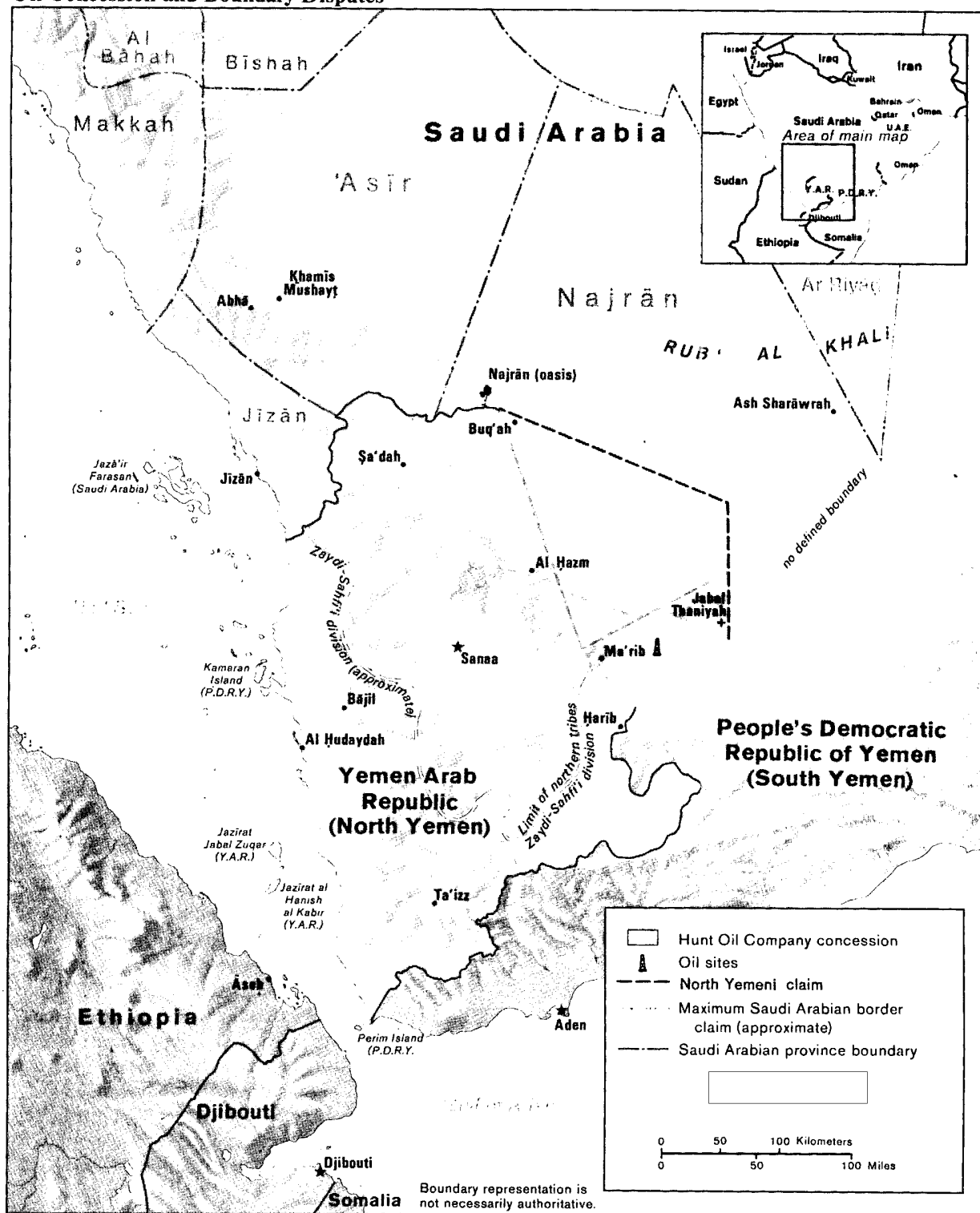
25X1

25X1

Secret

Secret

## Oil Concession and Boundary Disputes



704256 (A05111) 2-85

25X1

Secret

**Secret**

Still, there are economic and social factors that will help the government muddle through. The "mattress money" of the private sector will serve as a buffer to Yemeni families and probably mitigate their frustrations over economic difficulties. In addition, the Yemeni business community—which has contributed about half of the resources for the country's development plans—generally supports the government and probably will continue to do so because of the stability that Salih's regime has brought to the country. [ ]

Yemeni officials will push hard in the West and in the Persian Gulf states for project grants and loans on favorable terms. The expected completion of the refinery at Marib will free foreign exchange now required for oil imports and will be a reminder to the Yemeni public that the oil find is beginning to pay off. [ ]

Relations with Riyadh will continue to be difficult. Saudi Arabia's economic downturn and the prospect that North Yemen may in a few years become an oil exporter have fundamentally changed the relationship. We believe the Saudis will continue to provide enough aid in 1986 to protect their interests in North Yemen, but they will increase demands for a settlement of the border issue as a quid pro quo for major economic support. Salih, however, can again be expected to rebuff Saudi demands. [ ]

With both North and South Yemeni Armies deployed in strength along the eastern border, we expect periodic skirmishes in the coming year. Although there is a possibility that one of these incidents could touch off more widespread fighting, we believe this is unlikely as long as Hasani remains in power in Aden. If former South Yemeni President Abd al-Fattah Ismail or Defense Minister Salih Muslih Qasim displaces Hasani, we believe the chances of broader fighting would increase. Both are radicals who have long favored interventionist policies against South Yemen's neighbors. In any case, we believe North Yemeni troop deployments in the Marib area are sufficient to protect the oilfields against even a determined South Yemeni assault. [ ]

The Salih regime will continue in 1986 to maintain close relations with the USSR. Although Sanaa wants to diversify its weapons inventory, it sees no Western

supplier as a viable alternative to the USSR. Moreover, close ties to Moscow fulfill the traditional Yemeni need for a counterbalance to Saudi Arabia. The Moscow connection is also useful as a hedge against the possible reemergence in Aden of a radical regime bent on fomenting trouble with North Yemen. Nevertheless, irritations with Moscow, particularly over problems with Soviet military supply and training programs, are likely to recur in 1986. [ ]

#### **Key Uncertainties**

North Yemen's long tradition of violently settling political disputes makes President Salih's assassination a possibility, even though he apparently has an effective protective force. Both of Salih's predecessors were assassinated while in office. In the event of Salih's demise, we believe senior North Yemeni military commanders would select an officer of conservative orientation to head a new regime. Any such leader probably would continue Salih's policies, but we doubt he would quickly consolidate his position. North Yemeni politics, therefore, probably would revert to the factionalism of pre-Salih days, and Aden, Riyadh, and the major tribal shaykhs would all vie for increased influence by supporting various contenders. [ ]

#### **Implications for the United States**

US-North Yemeni relations are better now than they have been since 1972 when diplomatic ties were restored after the rupture caused by the 1967 Arab-Israeli war. Yemeni officials are generally pleased with US cultural and development projects and with the performance, if not the scale, of US military equipment supply and training programs. The oil discovery has enhanced Salih's power, and Washington is generally credited by the Yemeni public and government officials with playing a role in Hunt Oil's successful operations. [ ]

During the coming year, Salih will increasingly look to the United States as well as other Western countries for financial aid to support the economy until oil revenues are realized. North Yemen's satisfaction with the developing relationship with the United States, the oil find, and the presence of US military equipment in North Yemen's inventory—as

25X1

25X1

25X1

25X1

25X1

25X1

25X1

**Secret**



Secret

well as Sanaa's growing dissatisfaction with Soviet military equipment—create possibilities for further Yemeni interest in US weapons.

25X1

Despite these improvements, Yemenis continue to be concerned with what they see as excessive US deference to Riyadh's interests and consider this a serious impediment to closer ties. Senior North Yemeni officials continue to press for relations with the United States free of any Saudi connection. US support for Israel also rankles Yemenis and will remain a sore point in bilateral relations. The Salih regime strongly backs Yasir Arafat and the mainline PLO, although it keeps the PLO fighters it accepted after the Beirut evacuation under tight rein. Sanaa fears that an Israeli airstrike against PLO facilities in North Yemen is impending. Should such an attack take place, US–North Yemeni relations would suffer a significant setback.

25X1

25X1

Secret

Secret

**Political Risk Assessment <sup>a</sup>****Leader**

A. Health	0 (excellent) _____ 5 (precarious)
B. Mental ability/ capacity	0 (extensive abilities) _____ 5 (limited ability)
C. Decisiveness	0 (very decisive) _____ 5 (indecisive)
D. Charisma	0 (very charismatic) _____ 5 (no charisma)
E. Political astuteness	0 (very astute) _____ 5 (not astute)
F. Corruption	0 (not corrupt) _____ 5 (very corrupt)
G. Support in the government	0 (extensive support) _____ 5 (no support)
H. Support in the military	0 (extensive support) _____ 5 (no support)
I. Pragmatism	0 (very pragmatic) _____ 5 (not pragmatic)
J. Responsiveness to popular attitudes	0 (very responsive) _____ 5 (not responsive)

**Leadership**

A. Common views and ideological objectives	0 (strong unanimity) _____ 5 (total disparity)
B. Interpersonal relations	0 (close relations) _____ 5 (strong animosity)
C. Acceptance of leader's authority	0 (clear deference) _____ 5 (coup plotting)
D. Corruption (relative)	0 (no corruption) _____ 5 (extensive corruption)
E. Accepted succession	0 (wide acceptance) _____ 5 (none or no acceptance)
F. Power centers	0 (no competing centers) _____ 5 (many competing centers)
G. Support in the government	0 (wide support) _____ 5 (no support)
H. Support in the military	0 (wide support) _____ 5 (no support)
I. Pragmatism	0 (very pragmatic) _____ 5 (not pragmatic)
J. Responsiveness to popular attitudes	0 (very responsive) _____ 5 (not responsive)

**Military and Security Services**

A. Living and welfare conditions	0 (excellent) _____ 5 (very bad)
B. Support for government policies	0 (strong support) _____ 5 (no support)
C. Degree of discipline and acceptance of authority	0 (high degree) _____ 5 (low degree)
D. Presence and effective- ness of security forces	0 (very effective) _____ 5 (not effective)
E. Interforce relations	0 (excellent) _____ 5 (very bad)
F. Relations between senior officers and government	0 (excellent) _____ 5 (very bad)
G. Willingness to curb domestic opposition by force	0 (very willing) _____ 5 (strong unwillingness)
H. Politization of troops	0 (no politization) _____ 5 (extensive politization)
I. Politization of officer corps	0 (no politization) _____ 5 (extensive politization)
J. Officer corps-enlisted personnel relations	0 (excellent) _____ 5 (very bad)

<sup>a</sup> For each major component of political stability—leader, leadership, military and security services, social and economic pressures, and opposition—the left-hand column lists a specific category and the right-hand column lists the political risk value of each category.

**Social and Economic Pressures**

A. Social, ethnic, or religious discontent	0 (no discontent) _____ 5 (extensive discontent)
B. Demonstrations/riots	0 (no disturbances) _____ 5 (extensive disturbances)
C. General economic situation	0 (excellent) _____ 5 (very bad)
D. Foreign assets situation	0 (excellent) _____ 5 (very bad)
E. Unpopular changes in taxes/subsidies/price controls	0 (no change) _____ 5 (extensive changes)
F. Shortage of consumer goods	0 (no shortages) _____ 5 (extensive shortages)
G. Inflation	0 (no inflation) _____ 5 (steep inflation)
H. Demographic pressures	0 (no pressures) _____ 5 (extensive pressures)
I. Strikes	0 (no strikes) _____ 5 (pervasive strikes)
J. Attitude of students	0 (progovernment) _____ 5 (antiregime)

**Opposition****Internal**

A. Opposition press dissemination	0 (none) _____ 5 (extensive)
B. Organization and cooperation among different groups	0 (none) _____ 5 (extensive)
C. Popular appeal	0 (none) _____ 5 (extensive)
D. Leadership	0 (weak) _____ 5 (strong)
E. Terrorism/armed insurrection	0 (none) _____ 5 (extensive)
F. Size	0 (very small) _____ 5 (very large)

**External**

G. Terrorist activity	0 (none) _____ 5 (extensive)
H. Assets/capabilities within country	0 (none) _____ 5 (extensive)
I. Resolve	0 (none) _____ 5 (extensive)
J. Animosity	0 (weak) _____ 5 (strong)

25X1  
25X1

Secret

Secret

**Annex: Political Risk  
Assessment Methodology**

25X1

The political risk assessment reflects the views of country analysts on the five major components of political stability—leader, leadership, military and security services, social and economic pressures, and opposition (internal and external). Analysts rated 10 categories within each component on a scale of 0—no political risk—to 5—high political risk. Examples of categories include “health” and “decisiveness” for leader; “interpersonal relations” and “corruption” for leadership; “presence and effectiveness” and “discipline and authority acceptance” for military and security services; “general economic situation” and “inflation” for social and economic pressures; and “terrorist activity” and “popular appeal” for opposition. In the health category within the leader component, for example, Iran’s Khomeini received a 4.5  and Iraqi President Saddam Husayn a 1.

The scores for the 10 categories in each component were totaled (out of a possible score of 50) and then multiplied by an influence factor. This factor represents views of analysts about the relative influence of the five components on the political environment of each country in 1986. The sum of the five influence factors equals 100 percent. Iranian analysts, for example, weighted the five components as follows: leader—45 percent; leadership—20 percent; military and security services—15 percent; social and economic pressures—15 percent; and opposition—5 percent. Weighted components are then added and doubled so that the range of scores is from 0—no risk—to 100—very high risk.

25X1

25X1

25X6

25X1



**Page Denied**

Next 1 Page(s) In Document Denied

**Secret**

---

**Secret**